DOCUMENT RESUME

ED 271 034 HE 019 334

TITLE	Reauthorization of the Higher Education Act. Pell Grant and Campus Based Programs, Volume 2. Hearings before the Subcommittee on Postsecondary Education of the Committee on Education and Labor. House of Representatives, Ninety-Ninth Congress, First Session (Washington, DC, June 25, 27, July 16, 1985).
INSTITUTION	Congress of the U.S., Washington, D.C. House Committee on Education and Labor.
PUB DATE	Jul 85
NOTE	231p.; For volume 1 of these hearings, see ED 270 059.
PUB TYPE	Legal/Legislative/Regulatory Materials (090)
EDRS PRICE	MF01/PC10 Plus Postage.
DESCRIPTORS	Access to Education; College Students; *Federal Aid; *Federal Legislation; Financial Policy; Grants; Hearings; Higher Education; *Public Policy; *Resource Allocation; Student Costs; *Student Financial Aid; Student Loan Programs; Work Study Programs
IDENTIFIERS	College Work Study Program; *Higher Education Act 1965; National Direct Student Loan Program; *Pell Grant Program; State Student Incentive Grants; Supplemental Educational Opportunity Grants

ABSTRACT

Pell Grants, based on need, have been the federal government's commitment and contribution to equal access to higher education. Topics addressed in these hearings include: the maximum award amount, the percentage of college costs to be covered by the award, the living allowance for students living off campus, the tax rates on discretionary income used to determine expected family contribution and compute the Pell Grant program, the definition of independent students, the effect of cuts in the Pell Grants program on Black and Hispanic students, proposed changes in need analysis, whether graduate students should be eligible for Pell Grants, validation in the Pell Grant program, ways to reduce redundancy in the Pell Grant processing system, and disseminating information regarding federal programs. The campus-based programs are also covered; they include the Supplemental Educational Opportunity Grants, the College Work-Study Program, and the National Direct Student Loan Program. Testimony is also presented on the State Student Incentive Grant Program, which is a partnership between the federal government and the states in making need-based grants available to students. (SW).

****
* Reproductions supplied by EDRS are the best that can be made *
* from the original document. *
****

REAUTHORIZATION OF THE HIGHER EDUCATION ACT

Pell Grant and Campus Based Programs

Volume 2

HEARINGS

BEFORE THE

SUBCOMMITTEE ON POSTSECONDARY EDUCATION

OF THE

COMMITTEE ON EDUCATION AND LABOR HOUSE OF REPRESENTATIVES

NINETY-NINTH CONGRESS

FIRST SESSION

HEARINGS HELD IN WASHINGTON, DC, ON JUNE 25, 27, AND JULY 16

Serial No. 99-44

Printed for the use of the Committee on Education and Labor

U.S. GOVERNMENT PRINTING OFFICE
51-566 O WASHINGTON : 1986

51-566 O - 86 - 1

COMMITTEE ON EDUCATION AND LABOR

AUGUSTUS F. HAWKINS, California, *Chairman*

WILLIAM D. FORD, Michigan
JOSEPH M. GAYDOS, Pennsylvania
WILLIAM (BILL) CLAY, Missouri
MARIO BIAGGI, New York
AUSTIN J. MURPHY, Pennsylvania
DALE E. KILDEE, Michigan
PAT WILLIAMS, Montana
MATTHEW G. MARTINEZ, California
MAJOR R. OWENS, New York
RICK C. BOUCHER, Virginia
CHARLES A. HAYES, Illinois
CARL C. PERKINS, Kentucky
TERRY L. BRUCE, Illinois
STEPHEN J. SOLARZ, New York
MERVYN M. DYMALLY, California
DENNIS E. ECKART, Ohio
TIMOTHY J. PENNY, Minnesota
CHESTER G. ATKINS, Massachusetts
JAMES M. JEFFORDS, Vermont
WILLIAM F. GOODLING, Pennsylvania
E. THOMAS COLEMAN, Missouri
THOMAS E. PETRI, Wisconsin
MARGE ROUKEMA, New Jersey
STEVE GUNDERSON, Wisconsin
STEVE BARTLETT, Texas
ROD CHANDLER, Washington
THOMAS J. TAUKE, Iowa
JOHN R. McKERNAN, JR., Maine
RICHARD K. ARMEY, Texas
HARRIS W. FAWELL, Illinois
PAUL B. HENRY, Michigan

SUBCOMMITTEE ON POSTSECONDARY EDUCATION

WILLIAM D. FORD, Michigan, *Chairman*

MAJOR R. OWENS, New York
PAT WILLIAMS, Montana
MARIO BIAGGI, New York
CHARLES A. HAYES, Illinois
CARL C. PERKINS, Kentucky
TERRY L. BRUCE, Illinois
STEPHEN J. SOLARZ, New York
MERVYN M. DYMALLY, California
DENNIS E. ECKART, Ohio
TIMOTHY J. PENNY, Minnesota
CHESTER G. ATKINS, Massachusetts
JOSEPH M. GAYDOS, Pennsylvania
AUGUSTUS F. HAWKINS, California
(Ex Officio)
E. THOMAS COLEMAN, Missouri
STEVE GUNDERSON, Wisconsin
JOHN R. McKERNAN, JR., Maine
PAUL B. HENRY, Michigan
WILLIAM F. GOODLING, Pennsylvania
THOMAS E. PETRI, Wisconsin
MARGE ROUKEMA, New Jersey
THOMAS J. TAUKE, Iowa
JAMES M. JEFFORDS, Vermont
(Ex Officio)

CONTENTS

	Page
Hearings held in Washington, DC, on:	
June 25,1985	1
June 27, 1985	59
July 16, 1985	151
Statement of:	
Atwell, Robert H., president, American Council on Education	60
Bennett, William R., 1984-85 president, National Association of Student Financial Aid Administrators, and director of financial aid, Cleveland State University , OH	116
Carson, William C., president, American Technical Institutes	208
Casteen, John, National Governors Association	199
Chelimsky, Eleanor, Director, Program Evaluation and Methodology Division, General Accounting Office	107
Heffron, Mark, assistant vice president, Financial Aid Services, American College Testing Program	130
Leach, Jim, Congressman from Iowa	152
Martinez, Hon. Matthew, a Representative in Congress from the State of California	2
Mitchem, Arnold, executive director, National Council of Educational Opportunity Associations	176
O'Neill, Joseph, executive director, Conference of Small Private Colleges	162
Reyer, Otto, financial aid director, University of California, Irvine, CA; James E. Lyons, president, Bowie State College, Bowie, MD; and Gregory Moore, president, United States Student Association	3
Rotella, Salvatore G., chancellor, Chicago City-Wide College, Chicago, IL; William Carson, president, American Technical Institute, Chicago, IL; and Dorothy Shields, education director, AFL-CIO	32
Sandler, Benjamin, director of financial aid, Washington University	170
Saunders, Charles B., Jr., vice president for governmental relations, American Council on Education	156
Shook, Kenneth, State Scholarship Board of Maryland	204
Stephens, W. Richard, president, Greenville College, Greenville, IL	67
Strada, David, chairman, Student Financial Aid Administration Committee, Association of Independent Colleges and Schools	139
Tenzer, Morton J., chairman, Committee on Government Relations, American Association of University Professors, and professor, University of Connecticut	84
Tracy, Burke, executive director, Coalition of Higher Education Assistance Organizations	213
Prepared statements, letters, supplemental material, et cetera:	
Atwell, Robert H., president, American Council on Education:	
Letter dated July 15, 1985 to Hon. William D. Ford enclosing additional information	94
Pell grants proposal	95
Prepared statement of	62
Bennett, William R., director of financial aid, Cleveland State University, prepared statement with appendixes, on behalf of the National Association of Student Financial Aid Administrators	120
Carson, William C., president, American Technical Institutes:	
Prepared statement of	39
Prepared statement on behalf of the National Association of Trade and Technical Schools	211
Chelminsky, Eleanor, Director, Program Evaluation and Methodology Division, GAO, prepared statement of	110

Page

Prepared statements, letters, supplemental material, et cetera—Continued
Heffron, Mark, assistant vice president, Financial Aid Services, the American College Testing Program, prepared statement and position paper 133
Leach, Hon. Jim, a Representative in Congress from the State of Iowa, prepared statement of 153
Matejka, Larry E., executive director, Illinois State Scholarship Commission, letter dated August 1, 1985, to Hon. William D. Ford enclosing additional material 147
Mitchem, Arnold L., executive director, National Council of Educational Opportunity Associations, prepared statement of 178
Moore, Gregory T., president, United States Student Association, prepared statement of 14
O'Neill, Joseph P., executive director, Conference of Small Private Colleges, et al., prepared statement of 164
Reyer, Otto, director, Office of Financial Assistance, University of California, Irvine, prepared statement of 6
Robb, Hon. Charles S., Governor of Virginia, chairman, subcommittee on education, National Governors' Association, prepared statement of 202
Rotella, Salvatore G., chancellor, City Colleges of Chicago, prepared statement of 35
Sandler, Benjamin, director of financial aid, Washington University, St. Louis, MO, prepared statement on behalf of the Consortium on Financing Higher Education 173
Saunders, Charles B., Jr., vice president for governmental relations, American Council on Education, et al., prepared statement of 159
Shields, Dorothy, director, Department of Education, AFL–CIO, prepared statement of 46
Shook, H., Kenneth, president, National Association of State Scholarship and Grant Programs, prepared statement of 206
Smith, Dr. Stanley, president, Shaw University, Raleigh, NC, prepared statement of 10
Stephens, W. Richard, president, Greenville College, et al., prepared statement with attachments 69
Strada, David, director of student financing and regulatory affairs, Katharine Gibbs Schools, Inc., prepared statement on behalf of the Association of Independent Colleges and Schools 142
Tenzer, Morton, J., University of Connecticut, prepared statement on behalf of the American Association of University Professors 86
Tracey, Burke A., executive director, Coalition of Higher Education Assistance Organizations, prepared statement of 217
Weiner, Melvyn E., president, National Association of Career Schools, letter dated September 17, 1985, to Hon. William D. Ford 226

REAUTHORIZATION OF THE HIGHER EDUCATION ACT

Pell Grant and Campus Based Programs

Volume 2

TUESDAY, JUNE 25, 1985

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON POSTSECONDARY EDUCATION,
COMMITTEE ON EDUCATION AND LABOR,
Washington, DC.

The subcommittee met, pursuant to call, at 9:45 a.m., in room 2175, Rayburn House Office Building, Hon. William D. Ford (chairman of the subcommittee) presiding.

Members present: Representatives Ford, Hayes, Dymally, Atkins, Gunderson, McKernan, Goodling, and Petri.

Staff present: Thomas R. Wolanin, staff director; Kristin Gilbert, clerk; Maryln L. McAdam, legislative associate; Richard D. DiEugenio, Republican senior legislative associate; and Rose DiNapoli, Republican legislative associate.

Mr. FORD. I am pleased to call this hearing to order this morning as we continue the hearings begun earlier this summer on the reauthorization of the programs contained in the Higher Education Act.

This week we will be having two hearings on the Pell Grant Program. This follows upon 6 days of hearings earlier this month on the Guaranteed Student Loan Program. While these programs are very different in the way they are administered, they are very much linked in terms of benefits to students and one of the major issues that faces us as we enter reauthorization is the balance—or better stated, the imbalance between the loan and the grant programs. The last 6 years have seen a major shift in this balance. In 1976, 80 percent of Federal aid received was in the form of grants and only 17 percent in the form of loans. Today, that balance has shifted and it is virtually the reverse of the mix in 1976.

I would like to say that we have 33 hearings scheduled—I believe we have completed about 11 now—on reauthorization. We believe these hearings will let us touch at least briefly on all of the aspects of the Higher Education Act.

Obviously, we are not, either in field hearings or here, able to accommodate everyone who would like to appear on a panel, but we would like to have everyone's thoughts and ideas. So anyone who is not on a panel but wishes to share those with us and with the Congress is invited to submit whatever comments they wish to

make, either spontaneously or in response to people on the panels, and we will be pleased to include those in the record with the testimony that is given.

To start this off, I have the very pleasant opportunity of introducing the member of our own committee, Mr. Martinez, of California.

STATEMENT OF HON. MATTHEW MARTINEZ, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mr. MARTINEZ. Thank you, Mr. Ford. Thank you and the members of the subcommittee for giving me the opportunity to say a few words on the Pell Grant Program and to introduce a distinguished witness from my own home State of California.

As this subcommittee continues its consideration of the reauthorization of the Higher Education Act and today looks at Pell grants in particular, I appreciate the chance to tell you how important I believe this program to be. The proposals we have been hearing from the administration which recommend reducing Federal financial assistance are of concern to every student, prospective student and their families.

I am sure that the witnesses here today will say more about that. I would like to make a few comments, however, as vice chairman of the Congressional Hispanic Caucus, and as a Representative from a district and a State that has one of the largest Hispanic populations.

Pell grants have probably done more than any other financial aid program to provide equal access to higher education to these Hispanics. Pell grants have made a difference to all Americans, but have been of critical importance to the Hispanics and other minority communities.

Hispanics who attend college are less likely than other students to receive aid from the institution and thus are more likely than other students to depend on Federal financial aid, Pell grants in particular. Sixty-seven percent of Hispanic college students receive Pell grants, compared to 25 percent of all college students. For these students, it is particularly onerous that the Pell grants have not kept pace with inflation and that there is talk of reducing the amount of aid available.

Pell grants not only allow current students to stay in school, but they also encourage students to attend college. This incentive is especially important to Hispanic high school students who are, as a nation, one of the highest dropout groups in the country.

The availability of financial aid makes a big difference to those who are considering whether or not to go to college. Offering them other forms of financial assistance is not a substitute for Pell grants. Minority students face the failure of lower wages than the rest of their fellow students, making the repayments of loans especially difficult.

I urge this subcommittee to consider these facts during their debate and reauthorization of the Pell Grant Program.

I will leave the other witnesses to attest to the importance of the Pell Grant Program in their areas of expertise. Now I have the privilege of introducing the subcommittee's first witness, Dr. Otto

Reyer. Dr. Otto Reyer is unique to me in the fact that he was born in New York City and now resides in California and he is a first-generation U.S. citizen, with his father emigrating from Germany and his mother from Puerto Rico. He has grown up in a Puerto Rican household and came to California in 1964.

He is married to a first-generation U.S. citizen whose parents emigrated from Mexico. His background can speak to his Hispanic concerns from both a Puerto Rican and Chicano culture. He has one daughter who would be considered Germa-Rica-Mexican.

Dr. Reyer is the Director of Financial Aid at the University of California, at Irvine, and UC enrolls approximately 11,500 students and is one of the many fine schools in the University of California system.

Since Dr. Reyer is the best person to tell you of the importance of Pell grants to his students, let me excuse myself, as I have another hearing to attend, and allow Dr. Reyer to proceed.

Mr. REYER. Thank you very much.

Mr. FORD. Before you go ahead, however, Dr. Reyer, we would like to get the rest of the panel up with you.

Dr. Stanley Smith, President of Shaw University, was scheduled for today. I am informed that he is traveling and his testimony will be presented by Dr. James Lyons, president of Bowie State College. Is Dr. Lyons here? Yes, come forward, please. And Mr. Gregory Moore, president of the U.S. Student Association.

Without objection, the prepared testimony of each of these gentlemen will be inserted in the record in full immediately preceding their comments on the record today and we will start first with Mr. Reyer.

It is a pleasure to see you again, Otto. I don't know how many times we have been introduced, but I learn more about you each time it takes place. Go ahead.

STATEMENT OF OTTO REYER, FINANCIAL AID DIRECTOR, UNIVERSITY OF CALIFORNIA, IRVINE, CA; JAMES E. LYONS, PRESIDENT, BOWIE STATE COLLEGE, BOWIE, MD; AND GREGORY MOORE, PRESIDENT, U.S. STUDENT ASSOCIATION

Mr. REYER. Thank you, Congressman.

I am here testifying on behalf of the Hispanic Higher Education Coalition. This is a coalition of 14 associations dedicated to the influencing of education programs, and in particular, for Hispanics here in the United States.

The coalition believes that higher education is the key to addressing issues of discrimination, unemployment and other problems facing our community. Unless a number of Hispanics in post-secondary education increases, we will not develop the future leaders and professionals in higher education.

The Hispanic population is the fastest growing here in the United States right now, particularly in the Southwest here and California, where I come from, and in Texas. One of the items that is in my testimony is we speak to a largely bilingual, bicultural population. In the bilingual, bicultural situation, the bilingual, in terms of applying for student financial aid, has a very significant impact in that trying to grow up in a Hispanic household where

you are speaking one language and applying and going through a financial aid process that is in another language is significant in terms of trying to fill out forms and paperwork and makes a very large difference to our students who may or may not apply just based on the fear of the forms and the language problem that we have to deal with as Hispanic.

This particular committee was the first ever congressional committee to investigate some of the factors limiting Hispanics access to higher education and we appreciate having the ability to testify before again regarding Hispanics in higher education. During those hearings, research findings found that Hispanics remained greatly under-represented in all segments of higher education. Serious barriers remain to full educational participation. The panel findings concluded that fewer Hispanics enter or remain in college than their counterparts in other minority groups.

I would like to emphasize "remain." We are able to introduce Hispanics to higher education and we need to spend more time on persistence in helping those students complete their higher education.

We note for the record that the testimony presented at the Hispanic access hearings is relevant in total to the present legislation and we respectfully request that this body take notice of such previous testimony in regards to the current issues before it on reauthorization. The coalition is drawn on all its member organizations for this testimony.

We would like to emphasize that the theme of equality underscore all of our considerations, full equality for Hispanics is the principle challenge. Some individuals have been suggesting that equity is no longer an appropriate agenda for quality education. We reject this reactionary position. The National Commission on Excellence in Education report, "A Nation At Risk," chaired by the president of the University of California, David Gardner—the report stated—and I would like to quote: "The twin goals of equity and a higher quality schooling had profound and practical meaning for our economy and society and we cannot permit one to yield to the other in principle or in practice."

We are hopeful that any new Pell grant legislation will continue to speak strongly on this important issue. The Pell Grant Program is key to the Hispanic population.

I won't read statistics to the committee as they are in the written testimony, but I would like to state that given the critical role of Federal financial aid in maintaining what access there is of Hispanics to higher education, we support the introduction of language which provides a clear definition of the Federal intent regarding the Pell Grant Program to expand access for needy students, particularly undergraduate students.

Pell grants must remain targeted on the most needy students and such aid should be a dominant element in the Federal student aid system, as long as there is unmet need for needy students, then the line must be drawn. Anything less threatens the principle that Federal aid should be allocated to the neediest students. Specifically we support the establishment of Pell grants as an entitlement program with the maximum award set at $3,000 and rising annually to reflect CPI increases. We also request modification on the per-

cent-of-cost limitation to cover up to 75 percent of tuition costs, plus allowances for expenses, and would wish that would go to 100 percent.

Our support for the establishment of Pell as an entitlement program rests on the belief that a long-term commitment of this nature would be most helpful in reinforcing the efforts to reach students early enough to motivate and prepare them for college through assurance that economic vagaries would not hinder access.

I would like to mention that the University of California does have an outreach program tnat works with students as early as K through sixth grade in terms of working with minority students to help them at the early stages, realizing what a university, college, community college education means to them, and we try to emphasize that early enough so that students don't reach junior and senior high school and then say, "Come on, come to the university," when they don't have the proper preparation.

The early outreach programs are most important to these students.

We would also like to see incorporation of a realistic cost-of-attendance provision that will end discrimination against commuter students. Commuter students are faced with the real problem in terms of the cost of education on the Pell Grant Program. Modification of the half-cost provision will assist those needy students who attend low-cost public institutions and community colleges where the overwhelming majority of Hispanic students matriculate. Most Hispanic students are flowing through the community colleges through transfer programs to 4-year institutions and the Pell grant half-cost criteria is not helping those students in terms of that program.

We would also like to request that clarifying language be entered in section 484 regarding the eligibility for Pell grants. Insertion of a statement noting that English instruction for individuals with limited English proficiency is an eligible course of study determined by the institution as necessary to help students be prepared for the pursuit of a first degree will be very helpful to many institutions who have received varying interpretations of regulation eligibility for such courses by the Department of Education.

In regards to the question of academic progress, the coalition recommends that only the institution can realistically establish what is considered satisfactory academic progress. We respectfully note, also, that there is no room for imposition of a national Federal norm or set standard for judging satisfactory academic progress. The important issue of defining dependent versus independent student is of central importance to many Hispanic students. We would urge further analysis be conducted on what the effects of such a change would be in equitable distribution of Federal student aid.

We are in support of development of a single application that can be used by the student to apply for all Federal financial aid programs. We also recommend that legislative language capture demographic information about the institution's financial aid recipients. Information about the recipient's enthnicity, income level, and gender would help determine the impact and effectiveness of our Federal programs and thereby help chart a course for us that would more effectively meet our needs, goals, and objectives.

I would also further recommend that if it is truly the policy of the Congress that Pell grants should be focused on needy students, then it is essential that Pell grants continue to be available to students who do not necessarily have a high school diploma or equivalent, those of the students who need the most help, and many Hispanics do not finish high school. Of all minority groups, they finish the least and we don't give them a chance to get that postsecondary or vocational education.

Mr. Chairman, and members, I would like to thank you for this opportunity to testify before the subcommittee and will answer any questions you may have.

[The prepared statement of Otto Reyer follows:]

PREPARED STATEMENT OF OTTO REYER, DIRECTOR, OFFICE OF FINANCIAL ASSISTANCE, UNIVERSITY OF CALIFORNIA, IRVINE

My name is Otto Reyer and I am Director of the Office of Financial Assistance at the University of California, Irvine. I am honored to come before the Subcommittee on behalf of the Hispanic Higher Education Coalition. The Hispanic Higher Education Coalition, composed of fourteen national Hispanic organizations, is a membership organization concerned with the postsecondary education needs of our diverse Hispanic communities. The principal goal of the Coalition is to promote the increased participation of Hispanic Americans in higher education. The Coalition recognizes that higher education is key to addressing the issues of discrimination, unemployment, and other problems presently facing our community. The Coalition also recognizes that unless the numbers of Hispanics in postsecondary education is increased, we will not develop the future leaders and professionals to deal with the complex issues facing this, the fastest growing population in the country. Finally, the Coalition recognizes that, while the numbers of Hispanics in higher education must be increased, we must enhance the quality of education our students are receiving so they will be adequately prepared for tomorrow challenges. In short, the human capital and intellectual resources represented by this largely bilingual and bicultural population will remain largely untapped unless concerted policy attention is given to the improvement of educational opportunity for Hispanic students.

Given the above, we are grateful to the Subcommittee and its Chairman for extending the invitation to testify on the Pell Grant Program. By way of background I note that the first-ever Congressional investigation of the factors limiting Hispanics' access to higher education were conducted by the Subcommittee on Postsecondary Education during recent years. The Subcommittee's inquiry was prompted by research findings showing that Hispanics remain greatly underrepresented in all segments of higher education and that serious barriers remain to full educational participation for this rapidly expanding population. The panel's fact-finding concluded that fewer Hispanics enter or remain in college than their counterparts in other minority groups, that they register lower overall educational attainment as a group than either Whites or Blacks, and that college costs are much more important for Hispanics in selecting a college than for White or Black students. This series of five hearings has been seen as most valuable in exploring the policy questions involved and in seeking appropriate legislative measures to correct the underparticipation.

Previous testimony to this Subcommittee has presented voluminous statistical data on the Hispanic community and its declining Higher education participation rates. The Coalition was honored to testify at these Hispanic hearings. We note for the record that the testimony presented at the Hispanic Access hearings is relevent in total to the present legislation and we respectfully request that this body take notice of such previous testimony in regards to the current issues before it.

In preparing our comments, the Coalition has drawn upon the resources of its member organizations as well as from the extended Hispanic education community. The Coalition was pleased to consult with a number of financial aid officers experienced in working with Hispanic students and families. In addition the Coalition has been working extensively with the existent Hispanic education leadership throughout the country in formulating appropriate policy recommendations for the reauthorization measures. We would like to note that the theme of equity underscored all of our considerations. The issue of attaining full equity for Hispanics in all educational endeavors is the principal challenge. The question of equity has been both implicit and explicit in the various recent proposals for educational reform, with

U.S. DEPARTMENT OF EDUCATION
Office of Educational Research and Improvement
EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC)

☑ This document has been reproduced as received from the person or organization originating it.

☐ Minor changes have been made to improve reproduction quality.

• Points of view or opinions stated in this document do not necessarily represent official OERI position or policy.

some individuals suggesting that equity is no longer an appropriate agenda for quality education. We reject this reactionary position and quote the National Commission on Excellence in Education from its *A Nation At Risk* report that "The twin goals of equity and high quality schooling have profound and practical meaning for our economy and society, and we cannot permit one to yield to the other in principal or in practice". We are hopeful that any new Pell Grant legislation will continue to speak strongly on this important issue, asserting through the bill's substantive provisions that Congress intends to continue the nations' commitment to full educational opportunity for all its citizens. We respectfully request that the Subcommittee through its legislative and fiscal authority give consideration as to how equity for Hispanic students can become an even more integral element in the design and implementation of federal education efforts.

PELL GRANTS

We would like to note for the record that Hispanic students continue to come largely from lower-income families, and have a high reliance on federal financial aid, particularly on Pell Grants. Over sixty percent of Hispanic freshmen sampled in a recent study received only a single source of aid and that one source was almost exclusively Pell Grants. In cases where Hispanic students received funding from multiple services, 95% of such packages included a Pell Grant. Additional student financial assistance data on college freshmen identifying themselves as Hispanic in 1981 show that:

(1) 51 percent of all Hispanic freshmen received some form of federal higher education student financial assistance (compared to 60 percent of the Black freshman and 45 percent of the White freshmen);

(2) 63 percent of all Hispanic freshmen, who were from families with annual incomes below $20,000, received some form of Federal student aid (compared to 71 percent of the Black freshmen and 60 percent of the White freshmen);

(3) 46 percent of all Hispanic freshmen from families with annual incomes above $20,000 received some form of Federal student aid (compared to 51 percent of the Black freshmen and 42 percent of the White freshmen); and

(4) 66 percent of all Hispanic freshmen who received some form of Federal student assistance in 1981 were from families with annual incomes below $20,000 (compared to 77 percent of the Black freshmen and 37 percent of the White freshmen).

Of those Hispanic freshmen receiving Federal student aid in 1981:

40 percent received Pell Grant awards (compared to 51 percent of the Black freshmen and 22 percent of the White freshmen);

14 percent received Guaranteed Student Loans (compared to 14 percent of the Black freshmen and 26 percent of the White freshmen);

8 percent received National Direct Student Loans (compared to 9 percent of the Black freshmen and 7 percent of the White freshmen);

15 percent participated in the College Work-Study program (compared to 19 percent of the Black freshmen and 10 percent of the White freshmen).

Given the critical role of federal financial aid in maintaining what access there is of Hispanics to higher education we support the introduction of language which provides a clear definition of the Federal intent regarding the Pell Grant program to expand access for needy undergraduate students. Pell Grants must remain targetted on the most needy students and such aid should be the dominant element in the federal student financial aid system. As long as there is unmet need for needy students, then the line must be drawn. Anything less threatens the principal that federal aid should be allocated to the neediest students. Furthermore, if it is truly the policy of the Congress that the Pell Grant program should be focused on needy students, then it is essential that Pell Grants continue to be available to students who do not necessarily have a high school diploma or its equivalent. Those are the students who need the most help. Specifically we support the establishment of Pell Grants on an entitlement basis, with the maximum award set at $3,000 and rising annually to reflect CPI increases. We also request modification of the percentage-of-cost limitation to cover up to 75 percent of tuition costs, plus an allowance for expenses.

Our support for the establishment of Pell Grants as an entitlement program rests on the belief that a long-term commitment of this nature would be most helpful in reinforcing efforts to reach students early enough to motivate and prepare them for college through assurance that economic vagaries would not hinder access.

Incorporation of realistic cost of attendance provisions will end the discrimination current against commuter students attending low cost institutions i.e. community colleges.

Modification of the "half-cost" provision will assist those needy students who attend low-cost public institutions and community colleges, where the overwhelming majority of Hispanic students matriculate.

We wish to also request that clarifying language be entered in sec. 484 regarding the eligibility for Pell Grants. Insertion of a Statement noting that English instruction for individuals with limited English proficiency is an eligible course of study determined by the institution as necessary to help the student be prepared for the pursuit of a first degree will be very helpful to many institutions who have received varying interpretations regarding eligibility of such courses by the Department of Education.

In regards to the question of "academic progress" the Coalition recommends that only the institution can realistically establish what is considered satisfactory academic progress for its students. The institution should take into account the normal time frame for completing its course of study and use standards which can be measured against the norm and are reflective of the students served. We respectfully note that there is no room for imposition of a national Federal norm or set standard for judging satisfactory academic progress.

The important issue of defining dependent vs. independent student status is of central importance to many Hispanic students. Given the information available on this question, it appears that blurring or eliminating the current distinction between "dependent" or "independent" students would have a differential impact on Hispanic and other minority students. We urge that further analysis be conducted on what the effects of such a change would be on the equitable distribution of Federal student aid.

We are in support of development of a single application that can be used by the student to apply to *all* Federal financial aid programs. We also recommend that legislative language reintroduce into the year-end fiscal operations report a section that would capture demographic information about the institution's financial aid recipients. Information about the recipients' ethnicity, income level and gender would help determine the impact and effectiveness of our federal programs and thereby help chart a course for us that would more effectively meet our needs, goals, and objectives.

Mr. Chairman and Members, I would like to thank you for this opportunity to testify before the Subcommittee.

Mr. FORD. Thank you. We will go on with the panel and then come back for questions.

Mr. Lyons.

Mr. LYONS. Thank you, Mr. Chairman, for the opportunity to make some important comments before this subcommittee.

My names is James Lyons. I am not Dr. Stanley Smith. He was unable to be with us. One of the advantages of being located in Maryland, so close to the District, is that when your colleagues are unable to make it into the District to testify, you get the middle-of-the-night calls to come in and pinch-hit, and so I am pinch-hitting for Dr. Smith today.

I am the president of Bowie State College, which is located in Prince Georges County, MD. I am also representing the National Association for Equal Opportunity in Higher Education, NAFEO, as we call it, the membership association of the Nation's 114 historically and predominantly black colleges and universities, public and private.

The historically and predominantly black colleges constitute only 5 percent of the higher education institutions in this country. They enroll about 20 percent of blacks in higher education, but graduate nearly 50 percent of all blacks who receive the baccalaureate degree. Black colleges and universities provide the compensatory programs needed by so many students to overcome inadequate high school preparation. Moreover, they provide other support systems that encourage these students to persist in their academic pursuits.

In addition, we keep our tuition costs at affordable levels, despite the rising inflationary rate, in order to make an education more accessible to the economically disadvantaged population of black Americans. Because of these low tuition rates, historically black colleges and universities, since their inception, have served low-income minority students. They presently enroll the highest percentage of low-income students attending any type of higher education institution in this country.

An income breakdown of our student population can better illustrate what I just said. Thirty-three percent of all historically black colleges and university students come from families with incomes of $6,000 or less; 23 percent are from families with incomes between $6,000 and $12,000; 18 percent are from families with incomes between $12,000 and $18,000; and 12 percent are from families with incomes between $18,000 and $24,000.

The family contribution level at the historically black colleges and universities that students receive is much smaller than the family contribution of students attending other institutions of higher education. The average family contribution for a student at a historically black college is $200, an amount that is $1,200 less than the national average.

I stress that point because, having been an academic vice president in both a public and private institution and now being the only person at our institution that can give a deferment to a parent who is unable to come up with the funds, I want to assure you that these figures are important. I have to personally interview parents who are having difficulty in enrolling students in our institution and I assure you that there are many families who cannot come up with much more than the $200 and I am dealing presently at a public institution in the State of Maryland.

Lack of income flexibility, poverty, structural unemployment, chronic unemployment, neglect and deprivation have forced black college students into a situation where they are financially strapped and almost completely relying on Federal student assistance, particularly upon the Pell Grant Program. Nearly 85 percent of all historically black college and university students are participating in the Pell Grant Program, with 54 percent receiving a maximum Pell grant award. The average award for a historically black college and university student is $1,411 and—that is in a private institution—and $770 for those who are attending public institutions.

For academic year 1984, there are several historically black colleges where the maximum grant award equals the average award at that institution. Even with loans and other student aid programs taken into account, the average financial aid recipient at a private black college has an unmet need balance of $955, or 16 percent of the average total cost.

We feel that the Pell Grant Program should expand its programming to $4.2 billion; that the maximum grant ceiling be raised to $3,000, or 75 percent of the cost; and that the maximum award be raised by at least $125 per year thereafter. Between 1973 and 1975, when the Pell grant was primarily targeted on the truly needy, more than 1.3 million low-income undergraduate students gained access to higher education. After 1975, the proportion of Pell grant-

dependent recipients with family incomes under $12,000 declined by almost half.

By targeting the program on undergraduates with low family income and by expanding the funding level and the size of the maximum grant, the original intent of the program can be restored while simultaneously addressing rising college costs and the impact of inflationary pressures on income.

Historically and predominantly black colleges and universities have in recent years experienced a slight decline in enrollment, primarily as a result of changes in student aid policy which have resulted in a decrease in the amount of aid awarded students. Any further erosion of the dollar value of the Pell grant could lead to an additional decrease in enrollment which could, in turn, cause unprecedented development problems for the black colleges and black America as a whole.

Mr. Chairman, I might conclude by indicating to you that I have been in several State colleges in Connecticut, Kentucky, North Carolina, and private institutions in North Carolina, and now I am in Maryland, and I can assure you that the emphasis on loans is not a solution. In the State of Delaware, I sat on a committee that had to address the problems with loans because we found that so many of our students in that State could not get loans. I personally, as a vice president for 8 years, had to deal with people in banks trying to loosen up their lending policies and discovered time and time again that banks would not give money to our students, and in some few cases where banks were willing, I have encountered parents who have sat and said to me that they could not afford to take out loans. I can tell you, as president of our institution, having talked with students, having interviewed students who have dropped out over the past few years, many of our students are resistant to taking out loans. Many of them come to Bowie State College and other institutions feeling somewhat guilty in the first place because they feel the pressures of the need to go out and work, but they come to college to get an education and many of them just will not accept loans. I have sat during exit interviews with these students who have dropped out of college, instead of saddling themselves with thousands of dollars of loans which they don't see any way that they can pay back. So this is a real problem. The Pell grant is very critical to us and we want the subcommittee to know that this is a very genuine interest.

I appreciate the opportunity to come before this subcommittee and I would be happy to answer any questions.

[The prepared statement of Dr. Stanley Smith follows:]

PREPARED STATEMENT OF DR. STANLEY SMITH, PRESIDENT, SHAW UNIVERSITY, RALEIGH, NC

Mr. Chairman, members of the House Subcommittee on Postsecondary Education, my name is Dr. Stanley Smith, President of Shaw University, Raleigh, North Carolina.

Shaw, founded in 1865, is a private, Baptist-affiliated liberal arts institution. I am also representing the National Association for Equal Opportunity in Higher Education (NAFEO), the membership association of the nation's 114 historically and predominantly black colleges and universities.

The historically and predominantly black colleges constitute only 5 percent of the higher education institutions in this country, enroll about 20 percent of blacks in higher education, but graduate nearly 50 percent of all blacks who receive the bac-

calaureate degree. Black colleges and universities provide the compensatory programs needed by so many students to overcome inadequate high school preparation. Moreover, they provide other support systems that encourage these students to persist in their academic pursuits. In addition, we keep our tuition costs at affordable levels despite the rising inflationary rate in order to make education more accessible to an economically disadvantaged population of black Americans.

Chairman Ford, because of these low tuition rates, HBCUs, since their inception, have served low-income minority students. They presently enroll the highest percentage of low-income students attending any type of higher education institution in the country.

An income breakdown of our student population can better illustrate the above situtation:

Thirty-three percent (33%) of all HBCU students come from families with income of $6,000 or less.

Twenty-three percent (23%) are from families with income between $6,000 and $12,000.

Eighteen percent (18%) are from families with income between $12,000 and $18,000.

Twelve percent (12%) are from families with income between $18,000 and $24,000.

The Parental/Family Contribution level that HBCU students receive is much smaller than Parental/Family Contribution of students attending other higher education institutions. The average Parental/Family Contribution for a student at a historically black college is $200.00, an amount that is $1,200 less than the national average.

Lack of income flexibility, poverty, structural unemployment, chronic unemployment, neglect, and deprivation have forced black college students into a situation where they are financially strapped and almost completely reliant upon Federal student assistance, particularly upon the Pell Grant Program.

Nearly 85 percent of all HBCU students are participating in the Pell Grant Program, with 54 percent receiving a Maximum Pell Grant Award. The average award for private HBCU students is $1,411 and $770 for public HBCU students. For academic year 1984, there are several HBCUs where the maximum grant award equals the average award at that institution.

Even with loans and other student aid programs taken into account, the average financial aid recipient at a private black college has an unmet need balance of $955 or 16 percent of the average total cost.

We feel that the Pell Grant Program should expand its funding to $4.2 billion, that the maximum grant ceiling be raised to $3,000 or 75 percent of the cost, that the maximum award be raised by $125 per year.

Between 1973 and 1975, when the Pell Grant Program was primarily targeted on the truly needy, more than 1.3 million low-income undergraduate students gained access to higher education. After 1975, the proportion of Pell Grant dependent recipients with family income under $12,000 declined by almost half (to 62 percent from 32 percent).

By targeting the program on undergraduates with family incomes under $24,000 and by expanding the funding level and the size of the maximum grant, the original intent of the program can be restored while simultaneously addressing rising college costs and the impact of inflationary pressures on income.

Historically and predominantly black colleges and universities have, in recent years, experienced a slight decline in enrollment, primarily as a result of changes in student aid policy which have resulted in a decrease in the amount of aid awarded students. Any further erosion of the dollar value of the Pell Grant could lead to an additional decrease in enrollment which could, in turn, cause unprecedented development problems for the black colleges and black America as a whole.

NAFEO reached these conclusions for changes in the Pell Grant Program with the assistance of Dr. Kenneth Tollett and his excellent staff at the Institute for the Study of Education Policy (ISEP).

Mr. FORD. Thank you.

Mr. Moore.

Mr. MOORE. Thank you, Mr. Chairman.

Mr. Chairman, members of the Subcommittee on Postsecondary Education, I am pleased to present the views of the U.S. Student Association on the Pell Grant Program for consideration during the reauthorization of the Higher Education Act.

My name is Gregory Moore and I am speaking today as president of the U.S. Student Association, representing students attending over 400 postsecondary institutions and as a Pell grant recipient during my 4 years at Ohio University.

I wish to thank the subcommittee once again for seeking the input of students throughout this entire reauthorization process.

The USSA recognizes the vital role of Pell grants as the cornerstone of educational opportunities for millions of college students throughout the Nation and strongly believes that the Pell Grant Program should be the foundation of the student's financial aid package. It should be the basic grant upon which other forms of student financial assistance should be based.

For this reason, USSA urges the subcommittee to authorize Pell grants as an entitlement program as opposed to its current quasi-entitlement status. Students who are most in need of basic access to a postsecondary education are the ones most threatened by the yearly budget and appropriation debates over the past few years. It is clear that the need for the Pell grant has increased significantly. The Pell shortfalls over the past 2 years have been termed "aberrations" by the Department of Education. To us, these shortfalls indicate an increasing demand for basic grant assistance due to the declining real incomes and retraining for millions of Americas due to the shifting employment needs of our economy.

This year, USSA actively supported a 2,100 maximum Pell grant aware of 60 percent of the cost. That Pell grant level falls far short of the $2,600 at 70 percent of cost for fiscal year 1985, which was authorized by this subcommittee in the 1980 reauthorization.

USSA recognizes that it was the 1981 Omnibus Reconciliation Act which created this situation, but the result has been that students most dependent upon Pell grants have been the losers. USSA is aware of the Federal deficit figures looming vividly during the budget and reauthorization debates, yet we see a greater deficit in the future capabilities of our current youth unless there is a major commitment and support for postsecondary education.

The constant administration's attempt to reduce the Federal funding for education and the resulting delays and recalculations of student aid on campuses has sent a gloomy picture to millions of students and their families. The uncertainty for students and the families in the spring affects decisions about whether students can enroll in the fall.

For low-income students and families, this problem is exacerbated by the already difficult scramble to secure the necessary funds to cover educational costs. Pell grant funding levels play an important role in determining the choice of an institution. If funds are being cut or being deliberated in Congress, the message through the media is one of caution due to uncertainty.

In addition to authorizing the Pell grant as an entitlement, USSA supports an increasing grant award of $200 per year, starting in the $2,400 maximum award in 1986–87, and a $3,000 maximum award in 1989–90. We recommend that the living allowance be authorized at $2,500 for academic year 1986-87 for all those students except those without dependents and living at home. That level would be authorized at $1,700 for the academic year 1986–87.

Both living allowances should be increased $100 per year. The maximum Pell grant award cannot exceed 75 percent of these costs. USSA recognizes that these are calculations to derive a maximum Pell grant award, yet even with these necessary increases, the levels fall far short of realistic costs of room and board for students today.

USSA supports a need-analysis system that more realistically estimates a student's cost in attendance which includes transportation and child care. In addition to concern over the maximum grant authorization levels and cost formulas, USSA is concerned that the current eligibility criteria are excluding students from postsecondary education as a result of a somewhat arbitrary definition of what level of attendance warrants student aid.

Those students most in need of student financial aid are often forced into part time or less than half time, as characterized by credit hours due to economic constraints. USSA supports the inclusion of less than half-time students in the Pell Grant Program with the costs directly relating to postsecondary education being calculated. Federal support for Pell grants is $3.325 billion for fiscal year 1985 and $287 million supplemental currently awaiting the President's signature. With the fluctuating maximum award of $1,670 in 1982 and a $2,100 maximum for 1985–86, the value of the Pell grant dollar has declined substantially.

I was able to understand the impact of these changes in the Pell Grant Program first hand as a recipient of the program for 4 years, and as a student employee of the Cleveland Scholarship Program. One time period, which was the most difficult for me and for millions of other students, was the 1981–82 academic year when Pell grants were reduced in the middle of the summer for all students. This repackaging of student aid awards filled my own mind with uncertainty over whether I would be able to return to Ohio University to complete my studies.

I remember vividly the financial strain that these cutbacks had on my own family. I was one of eight children and the first in my family to ever attend college. These cuts and the knowledge of rising costs, led my younger brothers and sisters away from the hope that our family would ever be able to send us all through college. In addition to the impact on my own family, I had to explain cuts in student aid to hundreds of low- and moderate-income students in my job as a peer counselor for the Cleveland Scholarship Program.

But the more unfortunate students were those that never received an explanation and were forced to forgo their education altogether.

During that summer, I saw many students who, upon hearing of the delays and the loss of funds, abandoned their plans of beginning or returning to school altogether. High youth unemployment and the recession made it even harder for many students and their parents to meet their summer savings and expected parent contributions. Cuts in Pell grants were compounded by the phaseout of the student Social Security education benefits, which affected over 750,000 students.

These students never received any increases in other forms of student aid, which was supposed to happen following the phaseout.

USSA views information as a key to education. Assuring the funding of eligible students is just the first step. The second step is making sure information about student aid reaches all sectors of our society. USSA calls for the reinstatement of the toll-free 800 line for student aid information as just one way of minimizing confusion about student aid.

Here in Washington, DC, there might be a clear understanding of this lengthy process of budgeting, appropriating, and reappropriating, but unfortunately, the perception in communities and high schools and homes and our campuses is a mixed message of confusion on Pell grant funding.

A generation of youth and students are being created who will be denied educational opportunities and employment opportunities since there was no certainty in the funding levels of Pell grants. As president of USSA and a first-generation college graduate who was able to obtain a postsecondary education through the combined sources of a Pell grant, work study, guaranteed student loan and the Cleveland Scholarship, my summer earnings and my parents' contributions, I want to thank you for this opportunity to testify on the importance of the Pell Grant Program. I urge you to send a clear message to students across the country that Congress is reasserting the role of the Pell grant as the foundation of student aid.

All students, regardless of race, sex, disability, or economic status should be entitled to a postsecondary education as an investment in all of our futures.

Thank you.

[The prepared statement of Gregory T. Moore follows:]

PREPARED STATEMENT OF GREGORY T. MOORE, PRESIDENT, U.S. STUDENT ASSOCIATION

Mr. Chair and members of the subcommittee on Postsecondary Education, I am pleased to present the views of the United States Student Association (USSA) on the Pell Grant program for consideration during the Reauthorization of the Higher Education Act. My name is Gregory Moore and I am speaking today as the President of USSA representing students attending over 400 postsecondary institutions and as a Pell Grant recipient during my four years at Ohio University. I wish to thank the Subcommittee for once again seeking the input of students throughout this entire reauthorization process.

USSA recognizes the vital role of Pell Grants as the cornerstone of educational opportunity for millions of college students throughout the nation and strongly believes that the Pell Grant should be the foundation of a student's financial aid package. It should be the basic grant upon which other forms of student financial assistance should be based. For this reason USSA urges the Subcommittee to authorize Pell Grants as an entitlement program as opposed to its current quasi-entitlement status. Students who are most in need of basic access to a postsecondary education are the most threatened by the yearly budget and appropriations debates of the past few years.

It is clear that the need for Pell Grants has increased significantly. The Pell shortfalls of the past two years have been termed "aberrations" by the Department of Education. To us, these shortfalls indicate an increasing demand for basic grant assistance due to declining real incomes and re-training for millions of Americans due to the shifting employment needs of the economy. This year, USSA actively supported a $2100 miximum Pell Grant at 60% of cost. That Pell Grant level falls far short of the $2600 at 70% of cost for FY 1985 which was authorized by the Subcommittee in the 1980 Reauthorization. USSA recognizes that it was the 1981 Omnibus Reconciliation Act which created this situation but the result has been that students most dependent on Pell Grants have been the losers.

USSA is aware of the federal deficit figures looming vividly during the budget and authorizing debates yet we see a greater deficit in the future capabilities of current youth unless there's a major commitment in support for postsecondary education. The constant Administration attempts to reduce the federal funding for educa-

tion and the resulting delays and recalculations of student aid on campuses has sent a gloomy picture to millions of students and their families. The uncertainty for students and families in the Spring affects decisions about whether students can enroll in the Fall.

For low income students and families, this problem is exacerbated by the already difficult scramble to secure the necessary funds to cover educational costs. Pell Grant funding levels play an important role in determining the choice of institution. If funds are cut or being deliberated in Congress, the message through the media is one of caution due to uncertainty.

In addition to the authorizing of Pell grants as an entitlement, USSA supports an increasing grant award of $200 per year starting with a $2400 maximum award in 1986-87 and a $3,000 maximum award in 1989-1990. We recommend that the living allowance be authorized at $2500 for academic year 1986-87 for all students except those without dependents and living at home. That level would be authorized at $1700 for academic year 1986-87. Both living allowances should be increased $100 per year. The maximum Pell Grant award cannot exceed 75 percent of these calculated costs. USSA recognizes that these are calculations to derive a maximum Pell Grant award yet even with these necessary increases the levels fall far short of realistic costs of room and board for students today. USSA supports a needs analysis system that more realistically estimates a student's costs in attendance which includes transportation and child care.

In addition to concern over maximum grant authorization levels and cost formulas, USSA is concerned that current eligibility criteria are excluding students from postsecondary education as a result of somewhat arbitrary definitions of what level of attendance warrants student aid. Those students most in need of student financial aid are often forced into part-time or less than half time as characterized by credit hours due to economic constraints. USSA supports the inclusion of less than half-time students in the Pell Grant program with the costs directly relating to postsecondary education being calculated.

Federal support for Pell Grants is $3.325 billion for FY 1985 with a $287 million supplemental currently awaiting the President's signature. With a fluctuating maximum award of $1670 in 1982 and a $2100 maximum for 1985-86, the value of the Pell Grant dollar has declined substantially. I was able to understand the impact of the changes in the Pell Grant program first hand, as a recipient of the program for four years and as a student employee of the Cleveland Scholarship Program. One time period which was most difficult for me and for millions of other students was the 1981-82 academic year when Pell Grants were reduced in the middle of the summer for all students. This repackaging of student aid awards filled my own mind with uncertainty over whether I'd be able to return to Ohio University.

I remember vividly the financial strain that these cutbacks had on my family. I am one of eight children and the first in my family to ever attend college. These cuts and the knowledge of rising costs led my younger brothers and sisters away from the hope that our family would ever be able to send us all through college. In addition to the impact on my own family, I had to explain cuts in student aid to hundreds of low and moderate income students in my job as a peer counselor for the Cleveland Scholarship Program (CSP). But the more unfortunate students were those that never received an explanation and were forced to forego their education.

During that summer, I saw many students who, upon hearing of the delays and loss of funds, abandon their plans of beginning or returning to school altogether. High youth unemployment and the recession made it even harder for many students and their parents to meet their summer savings and expected parent contributions. Cuts in Pell Grants were compounded by the phase-out of Student Social Security Education Benefits which affected over 750,000 students. These students never received any increases in other forms of student aid which was supposed to happen following the phase-out.

USSA view information as a major key to education. Ensuring the funding for eligible students is just the first step. The second step is making sure information about student aid reaches all sectors of society. USSA called for the reinstatement of the toll free 800 line for student aid information as one way of minimizing confusion about student aid. In Washington, there might be a clear understanding of this lengthy process of budgeting, appropriating and re-appropriating, but unfortunately the perception in communities, high schools, and on campus is a mixed message of confusion on Pell Grant funding. A generation of youth and students are being created who will be denied educational and employment opportunities since there was no certainty in the funding levels for Pell Grants.

As the President of USSA and a first generation college graduate who was able to obtain a postsecondary education through the combined sources of a Pell Grant,

CWS job, GSL, a CSP scholarship, my summer earnings, and my parents' contributions. I thank you for this opportunity to testify on the importance of the Pell Grant program. I urge you to send a clear message to students across the country that Congress is reasserting the role of the Pell Grant as the foundation of student aid. All students regardless of race, sex, disability, or economic status should be entitled to a postsecondary education as an investment in all of our futures. Thank you.

Mr. FORD. Thank you.

Mr. Reyer, on page 6 of your statement, you said

We wish to also request that clarifying language be entered in section 4 regarding the eligibility for Pell grants. Insertion of a statement noting that English instruction for individuals with limited English proficiency as an eligible course of study determined by the institution is necessary to help the student be prepared for the pursuit of a first degree. It would be very helpful to many institutions who have received varying interpretations regarding eligibility of such courses by the Department of Education.

That comes as both a shock and a surprise to me. I have been under the impression that a great many institutions are concentrating on English proficiency and maybe not identified by that particular title for a number of years, not just for people coming from bilingual backgrounds, but for students of all kinds. It is very clear that one of the great deficiencies that many students reach college with is the inability to communicate well in the English language and they don't have to have a Hispanic background to have that disability.

Indeed, the interest of the schools was not primarily triggered by large concentrations of Hispanic students, but by large concentrations of students from all kinds of backgrounds, advantaged and disavantaged, who slept their way through the formal exposure to communicating in the English language, in reading and comprehending the English language because they were able to function very well without playing by the formal rules, until they got into the compressed requirements of writing and reading that they found in college.

I think it is pretty well recognized in my profession that one of the great problems that some people have when they reach law school is the ability to write essay-type responses to questions and some of the best and the brightest, without that ability, don't score very well.

What kind of an interpretation is being put on this by the Department that gets in the way of the college or university doing this?

Mr. REYER. One particular area is the amount of remedial course work that can be taken and still qualify for title IV funds and several different interpretations out of several different regional offices to several different institutions.

Mr. FORD. Could you—not now, but get for us some examples?

Mr. REYER. Surely.

Mr. FORD. We have language that says:

Nothing in the section shall exclude from eligibility courses of study which are noncredit or remedial in nature which are determined by the institution as necessary to help the student be prepared for the pursuit of a first undergraduate baccalaureate degree.

I don't know we can write language that says it any more directly than that.

Maybe, as a matter of fact, somebody at the Department needs a remedial reading course, and if you get us those specific examples of where they are causing this problem, we will find out who that is and see that they get remedial treatment——

Mr. REYER. Thank you.

Mr. FORD [continuing]. At the earliest possible opportunity.

Mr. REYER. I would mention, in terms of the English course work, that the University of California now has a requirement that high school students take 4 years of English before entering the University of California as one of its prerequisites for admission to the university. We also have a requirement at the University of California, Irvine, that we have one department, our Biological Science Department, which has put an awful lot of students into medical school, that they are required to finish the humanities core course before they can take many solids in biological science put in by a former dean to say, I don't care how good of a scientist you are, if you can't communicate that to another scientist, it is of no value.

So we are putting the emphasis on the communication of the English language to other individuals, both upon the admissions standards and within the institution itself. Part of that came in under Lieutenant Governor Dymally's administration, when he was in California as the Lieutenant Governor and a regent.

Mr. FORD. Thank you.

Mr. Hayes.

Mr. HAYES. Thank you, Mr. Chairman.

All of the witnesses have testified that they are very much in favor of the retention of the Pell Grant Program. As a matter of fact, I noticed that there has been what amounts to a decline since 1975, I think, when the percentage of the costs of attending college was covered by Pell grant, some 46 percent, in 1975, and now in 1984, I see that only roughly 31 percent of the cost of attending colleges is covered by Pell grants.

Has this reflected itself in the number of black and Hispanic students who have been attending the colleges, to your knowledge?

Mr. LYONS. One of the things that I have observed over the years is that this may have had a good deal to do with the shift of the number of black students to community colleges because of the costs. Now, I don't have any problem with people going to community colleges; I am not into that, but I would say that as we have looked at some of our studies, the decrease in black students, for example, going on to many State institutions has sort of paralleled the increase in their attendance at the community colleges. One of the reasons we assume that that is the case is because of the Pell grant situation and, therefore, they can go much cheaper at the community college.

We have had some students say that to us specifically.

Mr. HAYES. I don't have any further questions.

Mr. FORD. Mr. Dymally.

Mr. DYMALLY. Thank you, Mr. Chairman.

I would like to welcome my old friend, Mr. Reyer, here and just ask if there has been a net decline of minority students at Irvine in particular and the UC campus in general in recent years?

Mr. REYER. We have—Irvine is unique in that we put a special emphasis on recruiting minority students and we have increased our minority population. We did have a slight decrease 2 years ago and I think part of that, more than anything else, was the impact of the Pell Grant Program in not knowing the numbers, as my colleague, Mr. Moore, stated.

One of the problems is getting the information out on time to the students so that they can make decisions and we were delayed extensively in terms of knowing what the final numbers were so we could tell students exactly what their financial aid package was going to be, in that the packages built on the Pell grant as the floor to other financial aid programs for undergraduates. We are in a similar situation right now with the supplemental and because we don't have a supplemental right now, many institutions are not telling students what their financial aid is going to be next year because they don't have the final Pell grant schedule so they are not telling the students anything.

We have been going out with awards since April and they are guesses, which means we have to rework all of those awards to students and then many institutions, in particular, community colleges in the State of California, are saying, "We cannot go out with awards until we know that Pell grant schedule." So you have many students who don't know, as of today, the 24th of June, what their financial aid is going to look at for next year.

Mr. MOORE. Mr. Dymally, if I can add to that——

Mr. DYMALLY. Of course.

Mr. MOORE. In particular on my campus, I have noticed that since I was a student there in the late 1970's and early 1980's, the number of minority students has decreased, as well as the number of students from lower income areas and from urban areas. At one time, the black enrollment rate at Ohio University was close to 10 percent when I was a student there. It is now just below 4 percent and I think that as a 4-year institution that had a pretty good reputation in the State of Ohio for having open admissions, that is something that is a very alarming fact.

I would have to agree that the problems of students actually knowing that financial aid is going to be there next year plays a very major role in their decision to continue. Hundreds and hundreds of students are right now wondering—I guess thousands—whether or not they are going to do that. Many students are not opting for jobs, as opposed to continuing their education and so I just want to reemphasize that.

Mr. DYMALLY. Dr. Lyons, of the several important points you made, two struck me. You said that one is the difficulty of getting the loan and two, the reluctance on the part of students to sign on to a continuing series of loans during their college career. Do parents have to guarantee that loan also?

Mr. LYONS. It depends. Some banks do require that. So you get parents who are reluctant to get involved in it.

Mr. DYMALLY. That compounds the situation.

Mr. LYONS. Which compounds the situation.

Mr. DYMALLY. What about the—do they put a need requirement on the granting of the loans that are difficult for students to meet?

Mr. LYONS. I was referring to an experience in Delaware where we found that banks were not—students, of course, had to fill out applications and the banks were not approving those applications and some of the officers simply said they didn't know enough about the students, their background. They didn't seem to be solid. I was the one charged with the responsibility at that point of calling loan officers to see if a check was coming so that I could admit a student, and it just got to the point where we were making no progress at all and ended up trying to establish a relationship with a bank in New York, not in Delaware, but in New York, that said that any of our students who were rejected by banks in Delaware could come to New York and get a loan.

Mr. DYMALLY. This is a necessary question, but it needs to be repeated. Those loans, obviously, are guaranteed by the Government, is that not right?

Mr. LYONS. Yes.

Mr. DYMALLY. But even at that, even with the guarantee, the banks are still reluctant to give them. Do they give a reason why?

Mr. LYONS. I got reasons, different reasons, every time I called.

Mr. DYMALLY. Thank you very much, Mr. Chairman.

Mr. FORD. It has come to our attention that although the law doesn't contemplate cosigners on the notes, there are some, particularly small institutions, banking and lending institutions, that have engaged in that practice. Others are urging that it ought to be a requirement and I think you are illustrating here part of a problem because the reluctance of parents who themselves felt that they didn't need a college education to function to engage in what they perceive to be an additional responsibility that affects all of the rest of the family for the education of one or more children out of that family is an understandable concern.

One of the reasons why some of us are sort of reluctant, as neat as it sounds for people in terms of keeping track of money to have cosigners, to continue to treat a student who is trying to go on to school as if they were part of some stereotypical family structure with parents willing and able to assist them and always willing to cooperate with the person seeking an education in the best interest of that person seeking the education. I don't think that is any longer typical of the American family of any kind, of any racial group or any part of the country.

There are pockets of people to be found to be sure that still fit that mode. I have to constantly remind people speaking for the administration, including the Secretary when he was up here, because they like to talk about the typical family of four and the mythical typical family of four is two parents and two children. The 1980 Census tells us that of all families in the United States, about 10 percent of them fit that typical mode, and 10 percent of all those people living in families—now that is not 10 percent of the population—it is much less than that when you apply it against the total population, but if you just look at "family units," you find that family units don't match that typical stereotype any longer.

It is very hard to get people to realize this because we are all, to one degree or another, captives of our prejudices. We tend to think

of ourselves, no matter what our status, as being more typical than we ever are. It is very hard to break from that.

That works just the same for when you concentrate on the black population as it does when you look at the total population. There isn't any question in my mind that the combination of perceptions, as Mr. Moore mentioned, of what was going on, as well as the reality of the 1981 retreat produced in the minds of a great many people, and in reality for a great many people, barriers so that we saw, in my own State of Michigan, a shift of people in low-income categories from the more expensive institutions to those institutions that were more economically attainable.

When you relate ethnicity and race to income levels and realize that that has been going on, you shouldn't be too surprised when you find that the overwhelming majority of Hispanics who attend any kind of institution in this country are attending the cheapest college we have, which is the community college.

I have nothing against a community college education, but it bothers me that one group is so overrepresented in that because what that is telling us is that economics—and way back in 1965, when President Johnson sent the granddaddy of all this legislation up here, he said that at the heart of what he wanted to do is have the Federal Government use its resources to level the playing field a little bit and try to overcome the economic barrier for people who, for no other reason, were being blocked out of their own potential development. That is the direction we thought we were going in for a long time. We have retreated in the last few years, and I think it is very important that someplace we are able to make the case and get away from the budget for a few minutes and make the case that what we set out to do is being destroyed now because we are resegregating by economics people in institutions and we are, in that process also, screening out people and eliminating them by economics.

Mr. REYER. Congressman, if I could mention, the key to that whole game is the percentage on cost of education. You can raise the Pell grant up higher. If you keep the cost of education the same, it is going to continue to be the same situation for Hispanic students at community colleges. It is not going to change a thing, and that is what needs to change, the cost of education.

Mr. FORD. Well, it would be nice if there were a cheaper way to do it, but there isn't a cheaper way to do anything out there than we did it before. That isn't going to happen.

Mr. REYER. I am talking about a cheaper way to do it; I am talking about a change in the formula as to how we do it. That is what I am speaking to. Right now, we say that the cost of education for a student living at home for their room and board portion is $1,100. If they are living off campus, it is $1,600. Well, that is so unrealistic in terms of what it costs the student to live; that is where we need to put the emphasis, because the percentage makes no difference when you are that low on the cost.

That is where we have to make the difference.

Mr. FORD. We fully understand that, and as a matter of fact, it was my amendment that changed that number for the first time since it began. Unfortunately, the Senate didn't agree with those and we got only a little piece of what the House had agreed to.

We have to make up our minds whether or not we still believe as a country what we said we believed in in 1965.

Mr. REYER. I think we all believe in that.

Mr. FORD. I am not sure we do. I don't have the feeling that the last 4 years of budget fights that I have been in have given anybody even an opportunity to look at that, and even this year, with a House budget that is now in great trouble in the conference with the Senate budget, we are facing very severe constraints where our expenditures for education are considered the same as all other expenditures in Government, subject to being reduced as a sacrifice on the altar of debt reduction.

Mr. REYER. Congressman, if we look at the future, we currently have a fee structure at the University of California that charges a student $1,350 per year to attend our institution. That is low cost in terms of fees. We have students who come to my institution from private institutions who walk into my office with $20,000 worth of debt to go to graduate school or medical school at the University of California, Irvine. They are going to have the same fee structure as a medical student as an undergraduate, plus an additional $60 to $100.

We are talking about students graduating from a private undergraduate school, a public graduate professional school, with indebtedness up to $60 to $70,000. We are mortgaging those children to the point where they can't even look at becoming an integral part of society for 10 to 15 years.

They won't be able to purchase automobiles because the income won't allow them to for the payments they are going to have to make on those loans. I know of some students who are going to private undergraduate schools, private graduate schools, and are walking with an indebtedness of over $80,000, $90,000. What are we doing to our children if we are going to mortgage them that far into the future?

I think we need to be looking at those increases, at the cost of some other programs, or we are heading down a path that our society is not going to have the children to be able to do the things that we need to do and then we are going to be shutting out low-income students for a long time, particularly Hispanic students. Hispanic students don't like to borrow.

Personally, my wife just beats me over the head if I go for a loan for anything. She just does not like to borrow, and most Hispanic families do not like to borrow. She just don't like to get into debt. What we are saying to those students is, we will give you a Pell grant and we will offer a National Direct Student Loan or a Guaranteed Student Loan, and the student is saying, "Pass, I can't go with the Pell grant, so I am not going to go at all."

That is what we are doing to the Hispanic population and many of the black population also. We don't like to borrow and that is what we are being faced with now and Pell grant has not risen anywhere near, but if we are talking about a long-term situation, we have got to do it with the Pell grant as the base.

I realize the problems of the deficit and the situation and I think you propose a couple of solutions right here this morning, but we have to force those solutions if we want an educated society. If we want that basis that we talked about. I don't think we can have the

deficit drive the long-term policies of this Nation. That is what we are trying to do. We are trying to determine the long-term policies based on a current deficit. I don't think we can do that if we want an educated populace here in the United States.

Mr. LYONS. Mr. Chairman, let me pick up on something because we have mentioned community colleges, and I wanted to clarify that. As my colleague from California said, "Students either then decide not to go on to college or to go to the community college." Now, in several States where I have worked, this has happened, and I am concerned about at the historically black college, but not because they are going to a community college. Some of the students go on and transfer and move on and there are no problems.

My concern is having large numbers of black and Hispanic students then opt for the community college because of the financial aid package, because of the cost and then we have difficulty tracking them to find that they are moving on into 4-year programs. We are working very hard everywhere to set up parallel programs, but the students are getting trapped, and they are not coming out of the community college, going on to 4-year institutions in large numbers. That is the thing that is concerning us.

I know we have got studies going on now in Maryland trying to find out—trying to look at this transfer rate. We are setting up programs with community college, parallel programs and so forth, transfer programs, but the shift to the community college is lacking in large numbers of black and Hispanic students into the situation and they don't appear to be coming out and moving on into the 4-year institutions.

That is what is causing one of my concerns. That is why I mentioned this question of the shift, and I don't want our testimony to appear as though any of us have problems with students going to a 2-year institution. It is not going to an institution; it is coming out and transferring on into the 4-year program.

Mr. MOORE. Mr. Chairman, I just want to give you one scenario. When you mentioned that there was not a lot of political support for the Pell grant becoming an entitlement program, I think we are very aware of that, but just to give you a scenario of what that means for a student, for instance, this summer, many students have not yet been informed what level of Pell grant funding they are going to receive.

The first thing that means is that a student who had to register for fall courses in the spring has either had to now have those classes dropped because they haven't been able to decide or to pay the amount of money that is due, nor to enroll for preregistration for fall courses.

The second scenario is that they have to have—they don't know how much money has to be saved in order to meet those additional costs. Parents aren't sure how much they have to save. In the fall, the problem comes down to trying to get back in those classes that were canceled because they didn't pay their fees on time. It means taking courses that are related to their studies because they couldn't decide how much funds were going to be there.

It may also mean not having a book cost to pay for all the books because you are in classes that you can't really use because the other classes were filled up earlier. I am just giving you scenarios

of a student at an institution, and particularly, a 4-year institution that has the uncertainty level lead to a long chain of other problems.

One of the problems I had was that I had to go to school an extra year, because I couldn't afford to go to school in the summer, because I had to work and there were a number of classes that were closed out because there was a lack of teaching spots open in some areas, such as English or math, so what happens is a student is forced to stay in school longer. They are forced to take courses that are not relevant to their studies and they are forced to stay in school longer as the costs continue to increase.

To many students who don't understand this process, the easiest way out is to look for a job and stay out of school. Oftentimes, that leads to students deciding that the Federal Government is not going to support me, therefore, there is no way my family can afford it and now that I am becoming an independent person, I can't afford to go back to school until some time in the distant future and all this is the scenario of not knowing, because of one semester, whether or not there was enough funding.

I have seen this happen with several of my friends, so I guess I am saying that if there is a way in the long term, we can at least stand behind the idea that entitlement is the way to go. I think as we move on into the future, especially after we decide to no longer have large deficits, that this will be one of our top priorities.

Mr. FORD. Changing the program to an entitlement would not solve the problem you have just described because what you have is a shortfall in the appropriation based on the Department's estimates of what the demand on the program would be.

In effect, it is a quasi-entitlement because the demand has to be met. The supplemental now that has passed the House carries with it enough money to fund the Pell grant at $2,100 and 60 percent for the balance of 1985. That, I think, is around a $400 million shortfall. We don't know yet what the Senate is going to do with that, but that will be the level of funding, and that level of funding would be just as short if we had an entitlement under the present system. The difference with the entitlement is that the total amount of money that you would have to appropriate would be dependent on a self-driven program pretty much as the Guaranteed Student Loan Program is in its first-year costs, although they differ greatly in cost and it is a budgetary concern that people have about an unrestrained growth; not an unrestrained growth in sending a lot of people to college who shouldn't go to college, but meeting a bigger part of the already existing need than we are now meeting.

So the change to an entitlement will leave the problem, which is an annual problem, of how you convince some people that you are going to need as much money as you are going to need. They won't look at the realities of what the patterns are out there and they feel somehow that they have done something that is saving money by holding back. We have had this for several years now, and I don't expect it is going to get much better for several years into the future.

We have to do the very best we can to get Congress to move on it. Now, I am told that that money is being held up in the Senate,

because the President doesn't like the water projects that the Senate wants to fund as a part of the same bill. He has—someone at the White House has said he will veto it. I don't believe that. I don't believe he would veto that bill if the Senate put a water project for every Member of the Congress in it because it has got his Central American money in it and that is far more important than water projects, but this kind of political game goes on and on, and there is no way for the students to get information, because everybody who is being honest will have to say we think that this is where it is going to be, but we don't know.

I want to ask you one more question on behalf of the students, where do most of the students that you have personally encountered—where did they get their information about what they were eligible for and whether or not they were eligible for Federal aid?

Mr. MOORE. I guess the reason my situation was sort of unique was that I worked for a scholarship program, the Cleveland Scholarship Program, whose job was to counsel those students. Students who were not a part of this program had to find the information out from counselors in high schools. Students in college found it out basically from the financial aid officers.

The only problem with that is that if you know the situation with lines and with the inaccessibility of financial aid counselor, a lot of times that information came from rumors and hearsay, so——

Mr. FORD. So really they depend on what the gossip in the street is, don't they?

Mr. MOORE. Exactly, and when somebody reads——

Mr. FORD. And right now the gossip in the street is that a family with $32,500 is totally disqualified; a family with $25,000 is disqualified from most of the programs; that you have to have $800 up front to get a Pell grant; that you can't go to school if you don't have a high school diploma. Those are all proposals that were in the budget earlier this year.

What percentage of the kids should be making decisions about going to school next fall think that that has already happened?

Mr. MOORE. I would say quite a large percentage. If you look at each institution where over 60 to 70 percent of the students are on some form of aid, you are talking about a vast majority of those students believing that to be the case.

Mr. FORD. That is a very sad when you consider that I am not aware of anybody in either political party, and in either the House and Senate, who is advocating that those things be done and it is not very likely that they will be done, but the power of the media to project that story without the public having any understanding about the difference between what is proposed by an administration and what is disposed by the Congress is deadly when it is working on something like this.

Mr. MOORE. I think, unfortunately, you have the Secretary of Education that made very vocal comments at one time. That was the lasting perception the students had, that the financial aid support was diminishing and that for the next 4 years, this is the new attitude. I think that had more of an impact because the media concentrated so much on that and have not concentrated so much on the deliberations that have gone on since then.

Mr. REYER. Mr. Ford, I had to open every group session with the statement that this is a proposal at this point and nothing has come about in the law. People—their first questions on the first three or four group sessions that I would do with parents and students was, "I make over $60,000. Does that shut me out totally of everything? Now I can't get a loan because my income is $32,500." I said, "That is not true," and had to go through and start that up front when I did the group counseling sessions with parents and students.

The second thing is that I would like to point out what Greg says. It is very interesting that registration payments come much earlier in the game than school starts and what we have is the situation that if we don't know upfront what we can award the students, Greg gets shut out of registering and what we have is a two-tiered system. If you are rich, you get all your classes; if you are poor, you may or may not get your classes. What that does is put Greg into the loop now where he has a fifth year now that he has to go, or a sixth year, to get his education which puts him into additional loan programs if you look at the chart on the side now, so now he is in debt even more because he has to attend the additional year because he couldn't pay his fees on time. That is what we are doing to students by not having the information up front and early.

We are putting low-income students into a box that they are never going to get out of and we can't be doing that.

Mr. FORD. Thank you.

Mr. McKernan.

Mr. MCKERNAN. Thank you, Mr. Chairman.

I would like to follow up on your last comments, Mr. Reyer. I apologize for being late, but I have great concern about some of the misinformation that is floating around on who qualifies and who doesn't, and I share the chairman's concern about the word on the street. I think that was a problem back in 1981. That was before I was elected, but I remember traveling through my State of Maine, and suddenly ads appeared from all of the financial institutions saying they really did have money available.

So many people were making decisions back then based on what they were reading in the media about the administration's proposals which never came to fruition. I gather that the same thing is happening out there now and I think that that is unfortunate.

I would like to know, first, from any of you, what you think we can do about that, anymore than any of us as individuals do whenever we have town meetings or whatever and say, "Look, all this stuff you are reading about has not happened."

Second, regarding your last comment about the problem with not knowing what is going to happen and its effect on people's ability to register—I wonder whether that is some type of a procedural and perhaps even institutional problem to be corrected outside of the issue of funding levels for any of these programs.

Mr. REYER. Regarding the dissemination, I think you, as a Congressman, can go back to your district and emphasize that when you get back to your constituents. That is one way of doing it. Spreading the word in your district to all of the higher education

and postsecondary institutions in your district, that these proposals did not go through and the student aid is available.

I think by assisting the institutions in your area with a letter that can go out to all students who apply, that can be stuffed with other information regarding admissions and things like that, would be most helpful. We, as institutions, try to get that information out as much as possible, trying to give the current basic data that is out there.

We are still trying to hammer out the situation of saying those proposals were just proposals and did not go through. We try to get that information out.

One of the things that has occurred over the past couple of years is that the current administration has basically cut out all training programs for aid administrators at institutions. So many aid administrators now are not getting all of the information at the training sessions we used to have. We no longer have those training sessions. All of that training dollar has been cut out of the budget, so aid administrators are getting the information in bits and pieces and paper out of the current administration.

We no longer go to the Office of Student Financial Assistance training sessions because there are no more training sessions.

Mr. McKERNAN. Don't you have an association now? I know a lot of people come down from Maine as part of some association of financial aid directors or something—is there any——

Mr. REYER. Correct.

Mr. McKERNAN [continuing]. Way that that group can help?

Mr. REYER. As soon as we get the power to make regulation, that group is going to be in great shape, but we don't. It is the Department that makes the regulation and they are the ones that need to be doing the training, and they are not. It has been cut out of the budget. That is the group we need to speak to.

The second item that you asked about in terms of the registration for students like Greg and getting that word out and getting them in the loop, and you say it may be an institutional problem, if you don't know what the dollars are, there is no way we can? Greg what the dollars are. We still do not have a payment schedule, as of June 24, 1985, for students that are going to start school in 7 days in July. July 1, students will start on that payment schedule and we don't have a payment schedule as of right now.

Mr. McKERNAN. Is there any way to change the way the system is funded? Do you have any suggestions on that? That is one thing that bothers me. I think, in fact, Congresswoman Roukema, a session or two ago, had legislation which would have required that all the funding have a year lapse in any change that was going to take place in the program so that it was never going to affect the upcoming school year.

Do you have any thoughts on any way to do that?

Mr. REYER. I will accept that.

Mr. McKERNAN. The idea is to give people a better idea of how to plan and not make these changes in a month or two.

Mr. REYER. Right, so we can tell students early in the game so Greg doesn't have to go an extra year or two and maybe get out in the economy and start producing tax dollars to help other students.

Mr. McKERNAN. That leads to my next question, thank you.

Mr. LYONS. Mr. Congressman, before you go on to that, let me add that you mentioned that you are concerned about the in-house mechanism for dealing with the problem. I am sure my colleague here doesn't do it, but sometimes you get financial aid officers, then, who guesstimate and project what the awards will be and students get letters and then, come September, you have got a disaster because they then have to go back and put the package together again and correct the figures and so forth and we find that that is sometimes worse than not giving them any information at all.

But some people in-house have attempted to do that. They gamble on the word of the grapevine and the gossip and hope that, come September, what they said in May and June will hold up. I don't prefer to see our financial aid people do that.

Mr. MOORE. Just to respond to your first two questions quickly. Not only while we were in school were we dealing with the Federal cuts, but the State level as well. I was from Ohio and at that time, there were cuts to State subsidies, so one of the things that made it better was that we were dealing with biennium budget, as opposed to a yearly budget, and we knew what the State appropriations would be for 2 years and that is one of the things that made it a little bit easier to deal with on that level.

The other point about how we could information out. When the first round of cuts came in 1981, that was the exact same time that the toll-free 1-800 number was eliminated. So it was very hard—it was easier for me as a student peer counselor to say, "Well, if you don't know what your Pell grant award is going to be, call this number, give them your Social Security number and they will tell you." Then they took the number out and it became just a big guessing game because a lot of students didn't have the number because it wasn't accessible and they didn't have long distance survice to continue to make the phone calls and be placed on hold for 25 minutes.

So I think those two things would help significantly.

Mr. MCKERNAN. I can understand the problems that not knowing causes and I think that we ought to be doing something to try to correct that aspect of the program, even if the dollars are not going to be what you like. That leads me to my next question. The reason I was late was that I just came from a meeting on this country's trade policies, and the administration's general response to that has not been all that I would like it to be. They keep coming back to the fact that the real problem in international trade is our budget deficit and what that does to the value of the dollar.

I think the chairman is absolutely right; there aren't going to be a lot of new dollars for any problem, including this one.

I would like to get your comments on some testimony we have heard in prior hearings on refocusing the packaging of student aid, to place more of an emphasis on grants in the first 2 years, and have that taper off in the second 2 years and require a greater percentage to go into the Guaranteed Student Loans.

If we are unable to increase to the level that you feel would be appropriate, would it make sense to change the maximum Pell grant, for instance, in the first 2 years and make it higher than in the last 2 years? Is that something that this committee ought to be looking at? When students who are really serious about their edu-

cation, have a couple of years under their belt, are they then going to be willing to go more into loans? Is that an alternative?

Mr. REYER. I think that is something that could be studied, investigated. I don't think policies should be made until that is done. I think that is a good, excellent study to be done, to find out whether or not that is a viable alternative. As to whether or not we can put that package together, let me give you an example that we talk about quite a bit.

Let us take two graduate students, dispensing with the Pell for a second—two graduate students, one in humanities, one in information and computer science, of which we have at the University of California, Irvine. Both students have to attend school for anywhere from 4 to 7 years for their Ph.D. The humanities major is absolutely spectacular and we would like that humanities major to become a professor and faculty member at a University of California campus. So we go along and do the training. The student attends the university for 5 years. We now offer him the illustrious salary of somewhere around $23,000, $24,000 for 9 months as a junior entering faculty member.

Now, the information and computer science graduates in that same 5-year period. During that 5 years, both students have accumulated, let us say, the full $25,000 in guaranteed student loans. We are going to pay the humanities major $24,000 to $25,000 a year. The information and computer science major with the Ph.D. is going to make anywhere from $60,000 to $75,000. On the front-end, should we be doing something in terms of the package if you are in humanities versus information and computer science versus an undergraduate in Pell grant? I am not so sure. I think we need to really look at it, to make that determination and figure out what we are going to do, how are we going to handle the money?

I would not make a recommendation on that until I saw some numbers. I think the question is an excellent one. I think we need to look at that. Maybe the first 2 years, we give a student all gift aid, all grant, and then taper off the second 2 years. If they can make it through the first 2 years of higher education, fine, then we look at maybe portions, portion grant, portion loans. I don't know. There are several scenarios.

I have been a director of financial aid for 12 years. I have seen it go both ways. I don't know what the answer is. I think we need to study it. I have some data that I would like to look at now, but I don't know what the answer is, Congressman. It is an excellent question.

Mr. MOORE. If I could make one, maybe immediate, problem with that, and would be that if you were to concentrate on grants the first 2 years, a student at a community college would need more Pell grant award or more grant aid for transferring to a 4-year institution the last 2 years than they would attending a community college. They would be going the first 2 years.

The other think I would have to say is that the other costs are going to be rising as opposed to falling, and the cost for the institution will be more expensive the last 2 years than the first 2 years and maybe those are the 2 years where there is more of a shortfall of funds available, but I agree that it would take more study, but those are two things that I just immediately thought of.

Mr. LYONS. I would be happy to look at that, given the—that is something that I had never considered and I think implicit in the comment is the idea of let's help everybody get started and then see what happens. I would have to look at what might happen and would be happy to share some comments with you about our own institution, if that kind of thing were in place.

Mr. MCKERNAN. I appreciate that and if you could just mull that over over the coming months. The chairman has gone to great lengths to make sure that these hearings are in-depth and everyone has plenty of time to react to suggestions that are made, but I just think you are fooling yourselves. It is easy to come into a committee like this, where you are preaching to the choir, and say, "Boy, we need more money; we need more money and just think of all the great things we can do," and we all say, "You are right, you are right, you are right," and then you don't get the extra money. You have got to think about how can we satisfy the need in the best way possible, understanding that we now live in a time of limited dollars and we are not going to have any great increase.

Is there a way to change the Pell grants so we can get a bigger bang for the buck and take care of those kids who really need it? It is going to take some creativity and I hope you will continue to work with us on it.

Thank you, Mr. Chairman.

Mr. FORD. Mr. Gunderson.

Mr. GUNDERSON. No questions, Mr. Chairman.

Mr. FORD. Mr. Goodling.

Mr. GOODLING. Just a quick observation, Mr. Chairman.

When I came to this committee from education, I had two goals in mind. No. 1 was to put the money where it belonged. The reason being, I was one of those who was always being mandated from Washington, handicapped education is a good example; 95 percent of the mandates came from here. They said they would send us 50 percent of the money and I think the most we ever got was 13 percent.

The second thing was a timely kind of thing because, again, we were to plan and have everything just up to snuff, but we never really knew until after school started what it was we were going to get. That is one of our problems here with the Pell grant. You can get any figure you want, somewhere between $400 million, and $800 million, as a shortfall. We know what we are doing when we authorize and appropriate. We are hoodwinking the public, because we know we are going to have to come back for supplementals later on.

Even this supplemental, you know, all it does is do a little something in relationship to moving the 1,900 to 2,100 and the 50 to 60. It doesn't really do much about the shortfall situation, so I realize the problem that you have because you should be telling people what they are getting and there is no way you can tell them until the Congress acts. Hopefully—I don't know, the chairman may know that timetable better than I, but hopefully that will be finished soon after we get back from the 4th of July recess, if not before. It would be much better if it were before.

I have no questions, Mr. Chairman.

Mr. FORD. Thank you. I would make one observation about what Mr. McKernan said about the legislative solution and he mentioned Mrs. Roukema's interest expressed a few years ago. Along about 1977, we thought we were doing something very bright when we provided for forward funding all of the education programs, not just higher education, but the others as well. So there is nothing needed on the books to make it possible to do what you have been suggesting has to be done.

But institutionally, administration's and—you can count the administrations since 1977—and Congress have difficulty when it gets to the appropriating process and meeting what everybody tells them is on the map and will be necessary.

In this year, for example, the numbers that are now reflected in the supplemental—and I am told by staff that the Senate version of the supplemental does match the House version with our dollars, so that is not likely to be a big fight of any kind, but those numbers have been available since last year and earlier this year. I spent a lot of time lobbying the Appropriations Committee to get moving on this supplemental and found that the Appropriations Committees were in a game of chicken with the administration. There was no request for the supplemental funds and I don't know whether there ever has been up to this time a request.

They are simply saying, "You go ahead and stick your neck out and have a negative impact on the deficit situation. We are not going to suggest spending more money." Literally, they are saying, "We know the law requires it; the law says we should appropriate it, but you are going to have to do it and pick some time for the Appropriations Committee to crank up the courage to go forward without any support from OMB and the administration."

So spokesmen for those groups can, with some semblance of a straight face, say, "We are not responsible for these increases; Congress did that on their own." It is not always easy to get Congress to do those things on its own, particularly difficult in recent years since the budget, the budget, the budget dominates every discussion.

But we will have to keep working at it and we don't have a quick, easy answer and I can assure Mr. McKernan that we have tried to think of every device that an authorizing committee can use to force them to meet the needs of the program, at least as we have identified them, and I really believe that this committee has been as conservative as we can possibly be, painfully conservative in requesting new things. We haven't thrown a lot of new programs at people. We haven't made changes that were calculated to increase costs. We have been victimized in our overall budget figures by factors having nothing to do with education policy.

We have a tremendous cost pattern that shows up with the Guaranteed Student Loan Program that doesn't relate to the number of loans we were making or the amount of dollars we were spending on education, but to the cost of money.

I appreciate very much the effort that you gentlemen have put into your appearance here today and we thank you for your cooperation and I think that the members of the committee have suggested that we want to continue talking to you about a number of specific areas where you have a vantage point that could be ex-

tremely valuable to us in trying to find ways to, as Mr. McKernan says, get more bang for our bucks.

The next panel will be Dr. Salvatore Rotella, chancellor of the Chicago City-Wide College, of Chicago, IL; Mr. William Carson, president of American Technical Institute, Chicago, IL; and Dorothy Shields, education director, AFL–CIO.

Without objection, the prepared statements of each of the witnesses will be placed in the record in full and I now recognize Mr. Hayes, who wants to introduce one of the panel.

Mr. HAYES. Thank you, Mr. Chairman.

I feel privileged to have an opportunity, even within the time constraints that I know our panelists may be operating within, and I know this committee is going to have to commit itself to a series of votes very soon once we convene the Congress, so I am going to make my remarks very briefly.

Dr. Rotella has ascended up the ladder of educational administrative achievements rather consistently. In 1960 to 1962, he was assistant professor of political science at Wright College; 1962 to 1967, he was the chairperson in the department of social sciences at Luke College; 1967 to 1970, he was assistant dean and director of Public Service Institute at Luke College; 1971 to 1974, as vice president for career and special programs at Luke College; 1974 to 1975, associate vice chancellor at the Institute for City-Wide Programs; 1976 to 1980, president of Chicago City-Wide College; and 1980 to 1982, president of Luke College and City-Wide College; and in 1982 and 1983, was vice chancellor of the City-Wide College and Luke College and channel 20, WYCC.

He certainly is imminently qualified academically, having a Ph.D. degree in political science, achieving it through the University of Chicago, doctorate in political science, master's degree in political science from the University of Chicago, bachelor's degree in international relations at Hunter College.

He has been a recipient of numerous awards and honors and is one of the outstanding educators in America. He is listed in "Who's Who in American College and University Administration"; he has received the Superior College Public Service Award from the city of Chicago.

He has served on numerous boards and been active in civic organizations.

Chancellor Rotella certainly is qualified to testify before our subcommittee on the matter of Pell grants which is of prime concern to many of my constituents, both those who are currently attending city colleges and those who are aspiring for that opportunity.

A colleague of mine asked me to convey to you, Representative Bruce, who knows you very well, his welcome before our committee, so as a constituent of mine, I feel that you will pursue this business of Pell grants in the kind of fashion that will help us get the kind of results from Congress that these students deserve and need.

Thank you very much, Mr. Chairman.

Mr. FORD. Thank you.

Dr. Rotella, why don't you lead off.

STATEMENT OF SALVATORE G. ROTELLA, CHANCELLOR, CHICAGO CITY-WIDE COLLEGE, CHICAGO, IL; WILLIAM CARSON, PRESIDENT, AMERICAN TECHNICAL INSTITUTE, CHICAGO, IL; AND DOROTHY SHIELDS, EDUCATION DIRECTOR, AFL-CIO, A PANEL

Mr. ROTELLA. Thank you very much, Mr. Chairman, and members of the subcommittee.

I am Salvatore Rotella and I am the chancellor of the City College of Chicago. I speak to you today on behalf of our own system, the City Colleges of Chicago, on behalf of the Association of Community College Trustees and the American Association of Community and Junior Colleges.

The 1,200 community, junior, and technical colleges enroll about 8.5 million students annually. In the fall of 1984, 50 percent of all first-time college freshmen enrolled in one of the colleges that I am representing today.

Community colleges are unique. Each one of them tends to be shaped by the locale and the clientele that it is trying to serve.

Our philosophical heritage goes back to Jefferson. His vision of a free public education as crucial to developing the informed citizenry of America, American democracy and the economy would require is also our vision today. Because American society has progressed and the issues we face have become increasingly complex, higher education has become as important to our individual and collective lives today as elementary education was in Jefferson's days.

The community and junior colleges have a unique role in American higher education, the role of providing access to higher education for many who would be shut out of this process.

The new—and I emphasize "new"—college student we have created together differs in fundamental ways from the traditional college student. He tends to be older; she tends to work and attend college part time; they are commuters. He is often from a minority group or is a new immigrant; she is often the first member of her family to attend college; they are often required to interrupt their education at some point because of other obligations. He is more likely to pursue a vocational program than a liberal arts program; she is as likely to go to a community college to take the few courses she needs to advance as to earn a degree. They are likely to need financial asistance to pay even the minimal costs of attending a community college.

For this new type of student, the Pell grants provide a basic foundation of assistance, especially because these are the neediest students in the country. Let there be no confusion about the need. Seventy-five percent of all Pell recipients have incomes below $1,500. Forty percent of these students are self-supporting. One-third of them are minorities, and of course, in Chicago, like in other urban areas, the figures—numbers of students are larger; the income is generally lower.

By creating the Pell program in 1972, the Congress has made an impact on the enrollment of low-income students in higher education. Recent studies show that 59-percent of low-income students—

there has been a 59-percent enrollment of low-income students in higher education.

However, the fact that the percentage of average attendance costs covered by the maximum Pell grant has been declining recently should be of great concern to us. The figures—you have heard in previous testimony that the maximum grant in 1979 covered about 46 percent of average college attendance costs. Next year, that figure will be 31 percent.

We ask that you recognize this trend, which is really militating against the poorer students, of course, blacks and Hispanics, and that we try to stop this trend. We ask that you reaffirm our Nation's commitment to access by restoring funding to the Pell Grant Program to the levels that will make the commitment real for those who have come to count on it.

The 1,200 and more colleges that I am representing today and the 8.5 million students represented support the Pell Grant Program authorized under your leadership in 1980. We ask, in particular, for the following proposals: One, retaining the Pell Program's currently authorized emphasis on need; retaining the program's central processing component so that by completing the application for Federal financial aid, a student continues to be considered automatically for State financial aid programs. As you well know, most students end up with a package of financial aid and Pell is only part of that. Central processing is extremely helpful, especially at the State level.

Making the half-cost limit of the 1980 amendments the 70 percent you intended it to be.

Fourth, increasing the maximum award to reflect rising college costs by providing for increases during the 5-year authorization period. Unfortunately, costs do not stay fixed.

Five, adding special provisions to meet the needs of adult learners and students enrolled for less than half time. For example, by excluding home equity, employment benefits, and food stamps from the means test for displaced workers, and adding child care expenses to the cost of attendance calculations. I would like to remind you that in some of our own colleges in Chicago where we have a large number of minority students, many of these students are women, women that are raising children and they must have these children taken care of while they attend school.

Six, modifying the cost-of-attendance criteria to reflect the real costs of commuter students. We recommend that the commuter allowance for students living off campus, but not with parents—currently about $1,600—be comparable to current budgets for residential students. In addition, we recommend that the living allowance for commuter students living with parents be increased. This allowance, set at $1,100 in 1972, has not been adjusted since. If the limit were simply increased to reflect inflation since 1972, it would be $3,600 today.

Seven, implementing the Education Amendments of 1980, which addressed this inequity by allowing institutions to determine the cost of attendance for commuter students as they now do for residental students. This is especially crucial for community colleges where all of our students are commuter students.

Speaking of equity, Mr. Chairman, we share the committee's historic concern and interest in program balance. We appreciate the very hard choices you face in reformulating the Pell Grant Program. The most glaring imbalance, of course, is that guaranteed student loans are an entitlement and Pell grants are not. Our associations support the formula change proposed by the American Council on Education to the committee, which would correct the flaw in the existing Pell grant formula. The formula change would correct an inequity in the current program that permits middle-class students at lower priced institutions to obtain an award that could meet up to the entire cost; while low-income students receive an award which only meets up to 60 percent of cost. We are confident that you will correct this inequity.

With the help of the Federal student financial aid, students, regardless of their age, sex, race, or income should be able to live at home and commute to their local community college. In 1981, the last year for which figures are available, 70 percent of the students attending community colleges full-time also worked. Eighty-one percent of part-time students worked. Our students are contributing all they can to complete their education. They are not just sitting and taking courses.

They need a strong Pell Program sensitive to their needs if their educational dreams and the Nation's need for skills competitive in the global marketplace are to be realized.

We realize, Mr. Chairman, and members of the committee, that as Congressmen you have many demands put on you and that the resources are limited, but in this case, we are talking about an issue that is as close to the national interest as any issue can be.

We are talking not only about education; we are talking about the economic development of our future. It is for this that I speak to you without reservations because I know that the claim I present to you today is a claim of national interest and not self-interest. The issue is both simple and fundamental. We are either totally committed to providing the opportunity of higher education to all of our people or we are not. We are either prepared to provide all of our people with the knowledge and skills they need to be contributing members of our society or we are not. We are either prepared to provide all of our people with the change to share the quality of life that higher education has helped to give you and me, or we are not. We will either invest in America's future now or we will pay the bills for not doing so later on in alienation, discontent, unemployment, and diminished capacity.

On behalf of the City Colleges of Chicago, and all the community colleges represented by the Association of Community College Trustees and the Association of Community and Junior Colleges, I ask that your decision on the reauthorization of the Pell Programs speak clearly for the choices America has made among these alternatives.

I ask that you continue to say to our people and to the rest of the world that our society and our Government continue to choose hope over despair, equal opportunity over economic discrimination, and knowledge over ignorance.

I thank you very much for permitting me to present my views.

[The prepared statement of Salvatore G. Rotella follows:]

PREPARED STATEMENT OF DR. SALVATORE G. ROTELLA, CHANCELLOR, CITY COLLEGES OF CHICAGO

Mr. Chairman, members of the Subcommittee, my name is Salvatore Rotella and I am Chancellor of the City Colleges of Chicago. I speak to you today on behalf of the system I head, and on behalf of the Association of Community College Trustees and the American Association of Community and Junior Colleges.

It is a privilege to be invited here to testify about the Pell Grant Program and its importance to achieving our nation's goals for higher education. It is also a challenge. America's 1,200 community, junior and technical colleges enroll nearly 8½ million students annually. In the Fall of 1984, 50 percent of all first-time college freshmen enrolled in one of the colleges I speak for.

No two community colleges are exactly alike, precisely because, as community colleges, each is shaped by the educational needs of its own locale. Yet all of us share a set of fundamental principles and a set of critical challenges.

Our philospohical heritage dates back to Jefferson. His vision of free public education as crucial to developing the informed citizenry America's democracy and economy would require is our vision, too. Because American society has progressed and the issues we face have become increasingly complex, higher education has become as important to our individual and collective lives today as elementary education was in Jefferson's day. Congress has acknowledged this change by establishing programs such as Pell designed to insure that no citizen will be denied access to that higher education because of his or her family's income. The nation's community and junior colleges have sought to create such access by adopting open admissions policies which allow all students to undertake higher education.

Jefferson's principles, Congress' commitment, and our community colleges' policies have created a revolution in American higher education over the past two decades. Once the preserve of the privileged, the young, the few, higher education has become a real option for the majority of the American people. And millions of Americans have exercised that option.

The "new" college student we have created together differs in fundamental ways from the "traditional" college student. He tends to be older. She tends to work and attend college part-time. They are commuters. He is often from a minority group or is a new immigrant. She is often the first member of her family to attend college. They are often required to interrupt their education at some point because of other obligations. He is more likely to pursue a vocational program than a liberal arts program. She is as likely to go to her community college to take the few courses she needs to advance as to earn a degree. They are likely to need financial assistance to pay even the minimal costs of attending a community college.

The Pell Grant program is, as you know, one of several federal grant, work and loan programs designed to help low- and middle-income students—and especially the "new" students I have been describing—to meet the costs of higher education. The Pell grants provide a basic foundation of assistance, especially for our nation's neediest students. And let there be no confusion about it: I mean our neediest. Seventy-five percent of all Pell recipients have incomes below $15,000. Forty percent of these students are self-supporting. One-third of them are minorities. In Chicago, and the nation's other urban areas, the income figures for Pell recipients are substantially lower, the percentage of minority recipients substantially higher.

Congress' intent in creating the Pell program in 1972 was to increase educational opportunity for low-income students. Recent studies, such as *College Choice in America* by Charles Manski and David Wise, demonstrate that Congress' goal is being achieved. According to Manski and Wise, the Pell program has been directly responsible for a 59 percent increase in the enrollment of low-income students in higher education.

Programs that work are not that easy to come by. So the fact that the percentage of average attendance costs covered by the maximum Pell grant has been declining recently should concern us all. In 1979, the maximum grant covered about 46 percent of average college attendance costs; next year, it will cover only 31 percent. The gap this has created is beyond the reach of self-help for our neediest students, and beyond the reach of campus-based aid programs whose funding, in real terms, has also been declining.

The result is that too many low- and middle-income students at too many schools, especially in our urban areas, have had to drop out of higher education temporarily or permanently, or have had to assume increasingly larger loans that they can ill-afford to repay.

We ask that you recognize this trend and act to stop it. Now—before the gains we have been making to increase the educational opportunity of our citizens are seri-

ously eroded. We ask that you reaffirm our nation's commitment to access by restoring funding of the Pell program to levels that will make that commitment real for those who count on it most.

The organizations I represent today—and the 1,200 plus colleges and 8½ million students they represent—support the Pell program authorized under your leadership in 1980. We ask, in addition, that your Committee consider the following proposals:

1. Retaining the Pell program's currently authorized emphasis on need.
2. Retaining the program's central processing component, so that by completing the application for Federal Financial Aid, a student continues to be considered automatically for state financial aid programs.
3. Making the "half-cost limit" of the 1980 amendments the 70 percent you intended it to be.
4. Increasing the maximum award to reflect rising college costs, by providing for increases during the five-year authorization period.
5. Adding special provisions to meet the needs of adult learners and students enrolled for less than half-time. For example, by excluding home equity, employment benefits, and food stamps from the means test for displaced workers; and adding child care expenses to the cost-of-attendance calculations.
6. Modifying the cost-of-attendance criteria to reflect the real costs of commuter students. We recommend that the commuter allowance for students living off-campus but not with parents (currently $1,600) be comparable to current budgets for residential students. In addition, we recommend that the living allowance for commuter students living with parents be increased. This allowance, set at $1,100 in 1972, has not been adjusted since. If the limit were simply increased to reflect inflation since 1972, it would be $3,600.
7. Implementing the Education Amendments of 1980, which addressed this inequity by allowing institutions to determine the cost-of-attendance for commuter students as they now do for residential students.

Speaking of equity, Mr. Chairman, we share the Committee's historic concern and interest in program balance. We appreciate the very hard choices you face in reformulating the Pell grant program. The most glaring imbalance, of course, is that Guaranteed Student Loans are an entitlement and Pell grants are not. Speaking personally, I hope it will be your decision to make Pell Grants an entitlement. True equity and true balance can be obtained only when you have made Pell Grants an entitlement. And I am wholly confident that if you do so it will prove to be as much a landmark act in the national interest as was Congress' original decision to establish the Basic Educational Opportunity Grants.

Our Associations support the formula change proposed by the American Council on Education to the Committee which would correct a flaw in the existing Pell Grant formula. The formula change would correct an inequity in the current program that permits middle class students at lower-priced institutions to obtain an award that could meet up to the entire cost, while low-income students receive an award which only meets up to 60 percent of cost. We are confident that you will correct this inequity.

With the help of federal student financial aid, students, regardless of their age, race, sex, religion or income, should be able to live at home and commute to their local community college. In 1981, the last year for which figures are available, 70 percent of the students attending community colleges full-time also worked; 81.1 percent of part-time students worked. Our students are contributing all they can to complete their education. They need a strong Pell program, sensitive to their needs, if their educational dreams, and the nation's needs for skills competitive in the global marketplace, are to be realized. We ask that you assure that they get it.

I said when I began that speaking to this Committee for America's community colleges is a challenge. All of us are aware of the intensity of the budget debate that Congress is currently engaged in. As a political scientist, I understand the often mutually exclusive demands for support that you and your Congressional colleagues are challenged to reconsider in these and other hearings. I know that much of what you hear sounds like special pleading for one group or another. And I know that there are always more legitimate claims for support than there are available resources.

Yet, I speak today without reservations because I also know that the claim I present to you today is a claim for the national interest, not self-interest. The issue is both simple and fundamental: we are either totally committed to providing the opportunity of higher education to all of our people, or we are not. We are either prepared to provide all of our people with the knowledge and skills they need to be contributing members of our society, or we are not. We are either prepared to pro-

vide all of our people with the chance to share the quality of life that higher education has helped to give you and me, or we are not. We will either invest in America's future now, or we will pay the bills for not doing so later—in alienation, discontent, unemployment, and diminished capacity.

On behalf of the City Colleges of Chicago and all the community colleges represented by the Association of Community College Trustees and the American Association of Community and Junior Colleges, I ask that your decision in the reauthorization of the Pell program speak clearly for the choices America has made among these alternatives. I ask that you continue to say to our people and to the rest of the world that our society and our government continues to choose hope over despair, equal opportunity over economic discrimination, knowledge over ignorance.

Thank you again for this hearing of our views.

Mr. FORD. Mr. Carson.

Mr. CARSON. Thank you, Mr. Chairman, and members of the committee.

My name is Bill Carson. I have been in the field of private occupational training for over 17 years and am President of the American Technical Institutes, which operates five schools in three States.

I am also an officer and director of the National Association of Trade and Technical Schools, generally known as NATTS. I am here this morning representing that organization.

NATTS represents over 835 schools and branches offering occupational training to approximately 250,000 students. In the interest of time this morning, I should like to concentrate on a single point as it relates to the use of the Pell grant by students attending NATTS schools. That is the point that has been repeated frequently this morning and is illustrated by the chart on the wall, the failure of the Pell grant to keep up with the educational costs which results in increased reliance on loans by students who often can least afford such indebtedness and can prevent students from attending school at all.

I should like to illustrate this by using examples from one of the schools which I operate. This school is located in Detroit. There are approximately 350 students learning to be automotive and diesel mechanics. Almost 200 of our graduates have gained employment in the field of automotive mechanics in each of the last 6 years in the face of the continuing high rate of unemployment in Detroit.

The financial problems faced by these students are representative of those faced by students in NATTS schools. We selected six graduates at random from the years 1980–81 and six from the years 1984-85 and analyzed their backgrounds, Pell grants, loans and employment results.

This data is contained in the written testimony which you have and may be seen on the table at the end of the material, if you wish to look at it now.

I would like to cite specific examples to illustrate the change that has occurred during this 5-year period. Alan K. started school in July 1981, and graduated in April 1982. He was 30, a high school graduate and had been laid off by Chrysler. He got a job at the General Motors Proving Ground as an auto mechanic and is now earning $7.81 an hour. To finish school, he had a grant of $1,196 and a loan of $1,410.

A second student, Douglas K., who started school in March of 1981 and graduated in January of 1982. He also was 30, married with two children and a high school graduate. He had been laid off

by a trucking company. After his training, he got a job with a Standard station as a mechanic and tow truck driver and is now working for an automobile dealer earning $10 per hour, flat rate, plus a commission. His grant aid was $1,259 and he had a loan of $1,485.

Now we can look at some students who attended more recently and have just started work. Michael M. entered school in May 1984, and graduated in March 1985, 3 months ago. He was 23, had two children, had dropped out of high school, but had a GED. He is now working as a mechanic at a gas station. His starting salary was $4 per hour, but we believe that will increase. He had a grant of $1,847 and incurred debt of $2,342.

Donald F. started in June 1984 and graduated in March 1985. He was 28, married with two children and a high school dropout. He had been a fitter for the gas company but was laid off. He is now self-employed as a mechanic and tow truck operator. He had grant aid of $1,799 and a loan of $2,320. He reports earnings of $800 per month.

This is a great improvement over his previous welfare income, but repayment will obviously be a problem for him in the next few years.

These examples are just that. This is not a comprehensive study and we have taken this means to illustrate what we believe is the crucial problem.

They are representative of what has happened in 5 years to people who need training to get a job. They are incurring substantially more debt, in these cases, roughly an additional $1,000 or 70 percent higher loan. The individuals I have cited took courses of approximately a year in length. Many NATTS schools offer courses that are 2 years or more in length and the debt would be correspondingly larger. The problem, of course, is even more severe for students taking 4-year or graduate courses.

Mr. Chairman, I have tried to put the problem in human, rather than statistical terms. There can be no question that the Pell grant program is essential to those individuals who must obtain occupational skills to obtain their first job or to be retrained. The wrenching changes in the U.S. economy and related changes in the student who had traditionally attended postsecondary educational institutions make a program that provides for individual choice particularly effective.

We fully appreciate the enormous pressures that the deficit are creating and believe that through these hearings and as you go through the reauthorization process, you will be weighing the many proposals made to you.

We believe that the level of grant aid needs to be increased so that those that need the training the most are able to get it and do not incur the severe debt that they are now forced to take out.

We have handed in written testimony and I would certainly be pleased to answer any questions about it or the shorter testimony I have given this morning.

Thank you very much.

[The prepared statement of William C. Carson follows:]

PREPARED STATEMENT OF WILLIAM C. CARSON, PRESIDENT, AMERICAN TECHNICAL INSTITUTES

Mr. Chairman. Members of the Subcommittee. Thank you for the opportunity to present our views on the Pell grant programs as they affect students attending our schools.

I am William C. Carson, President of American Technical Institutes. I am also an officer and a member of the Board of Directors of the National Association of Trade and Technical School (NATTS). I have been actively involved in postsecondary occupational education for over 17 years.

THE NATIONAL ASSOCIATION OF TRADE AND TECHNICAL SCHOOLS

The National Association of Trade and Technical Schools (NATTS) is an association of 835 accredited private postsecondary occupational schools and branch campuses. Our schools are job-oriented and dedicated to serving training needs of students and employers. Over 100 training programs are available and our schools are located nationwide. There are an estimated 250,000 students enrolled in these institutions representing a broad range of income and racial backgrounds.

Our schools are market-oriented, sensitive to society's demands for career-related training, and know how shifts in the labor force are affecting particular occupations. "Hands-on" training, frequent starting dates for instant access, an accelerated pace of training, flexible teaching schedules, work-related atmosphere, and a heavy emphasis on job placement are all innovations introduced by occupational schools to serve the training needs of business and industry.

PROFILE OF STUDENTS

In order to give you a profile of students attending occupational schools, we would like to refer to a 1983 study conducted by the National Commission on Student Financial Assistance entitled, *Proprietary Vocational School and Federal Student Aid: Opportunities for the Disadvantaged.*

The national study was significant because it was the first attempt to provide data on the characteristics of proprietary students receiving financial aid and the packages of student aid received by those students. Let us highlight a few of the basic points of the report:

Over half to nearly two-thirds of the students at proprietary schools applied for financial assistance.

The proprietary sector is providing financial assistance to individuals with an average age of 25.

54% of those receiving financial assistance are from minority groups.

56% of those receiving financial assistance are from family incomes of under $6,000.

Proprietary schools serve a greater proportion of independent or self-supporting students; 54% of those receiving aid at proprietary schools do not have any parental support.

IMPORTANCE OF PELL GRANTS TO OUR STUDENTS

Pell Grants play a crucial role for students attending our schools. However, the national study shows that students choosing to attend our schools, who are often the least advantaged financially, are faced with the highest percentage of unmet need. The attached graphs taken from the study shows clearly that the unmet need of our students, in the case of dependents, is 30% as compared to 12% for students attending public institutions and 4% for students attending independent institutions. Similarly, in the case of independent students in our institutions, unmet need is 29% as compared to 24% in public institutions and 18% in independent institutions.

Students are concerned by the growing level of unmet need caused by the failure to award levels to keep pace with increased costs. According to a recent study, the size of the maximum Pell award did not keep up with inflation, growing only 19% between 1977 and 1984. Tuition and fee charges increased by 35% in the same period in the proprietary school sector while tuition and fees at the universe of Pell institutions increased by 45% during the same period.

This has the effect of preventing a substantial number of prospective students from attending school or having to rely more on loans to fill this unmet need. This heavy reliance on loans for our lowest income students in unmanageable for them and should be corrected by increasing the award levels for the Pell program.

As an illustration of this point, we have attached to our testimony, actual financial aid packages which illustrate the increasing reliance on loans by these students.

There are a number of other factors contributing to this reliance on loans:

Proprietary school involvement in campus-based aid is limited—approximately 5% of total funds are used by proprietary students.

Access to college work-study programs is limited. This is mainly due to the restriction that job placement must only be in non-profit organizations. For most proprietary schools, this means that all placements must be off-campus.

Most programs offered at our schools are very time intensive—students attend classes 5 to 7 hours each day, five days a week, making commuting to and working on an off-campus impractical. We have recommended in our reauthorization proposals that CWS funds be used by students attending proprietary schools on-campus.

State aid is often limited to degree-granting non-profit institutions. Due to state constitutional or statutory limitations, students attending our schools are often prohibited from receiving state aid.

The increasing heavy reliance on loans for our students is a cause for concern not only by the Congress, but also our schools. We are concerned that the debt burden on our students is becoming unmanageable.

The delicate balance between loans and grants has, in all postsecondary education and particularly in the proprietary sector, been tipped heavily to the loan side. This needs to be corrected!

RECOMMENDATIONS

In closing, we would like to, again, stress the importance of maintaining the role of PELL Grants as the foundation of federal student aid. On behalf of our students and institutions, we wish to make the following recommendations to maintain this important role and to improve the administration of the PELL program.

1. Needy students must participate to the fullest extent in the PELL Grant program. We recognize that there are budget pressures, and, in fact, did not propose in our recommendations to the Committee submitted April 30 to increase the award levels for the PELL Grant program. However, as a result of new studies, we now believe that students are in need of increased award levels in this program to keep pace with increased costs and to prevent excessive loan burdens.

2. We support concentrating the PELL Grant on direct educational costs (tuition, fees, books, and supplies), thus making the program more sensitive to the actual tuition price of education. In addition, the commuter allowance and percentage of cost increases should be tied to and only triggered by an increase in the grant maximum; otherwise, the current competitive balance among postsecondary education sectors will be disrupted.

3. We recommend the adoption of a master calendar for the delivery of student financial assistance which will require the Department of Education to present information earlier in the process then under current law. (A model for this master calendar was advanced by the National Commission on Student Financial Assistance.) This would enable students, families, and institutions to obtain accurate information in time to affect decisions about postsecondary attendance and choice. Special consideration should be given to private occupational schools which often have class starts on a weekly or monthly basis. In our recommendations to this Committee, we suggested June 30 as the PELL application cutoff date to accommodate "summer starts" that occur in our schools. We also recommended November 1st of the year preceding the year during which funds are to be used, as a date that financial aid applications will be available. This will ensure that financial aid applications would be available on a more timely basis.

4. We recommend that the goal established in the 1980 Education Amendments to use a single need analysis system should be adopted. The use of the single need analysis system would simplify the administration of the programs and help eliminate the possibility of errors and audit exceptions. A single need analysis system should be based on sound economic assumptions which measure a family's true ability to pay, such as the currently approved uniform methodology.

The present PELL Grant system serves as a rationing device. Annually, the proposed family contribution is developed by the Administration according to the appropriations available or being proposed and consequently not based on sound economic assumptions. If a single need analysis system is not possible, then the family contribution schedule should be written into law to ensure a consistent assessment of the family's ability to pay in real terms and not be used as a rationing device. The amount of the grant then should be proportionately increased or decreased depending on the PELL Grant appropriation level.

5. We recommend the adoption of the following definition of an independent student: The term "independent student" means any student who is twenty-three years

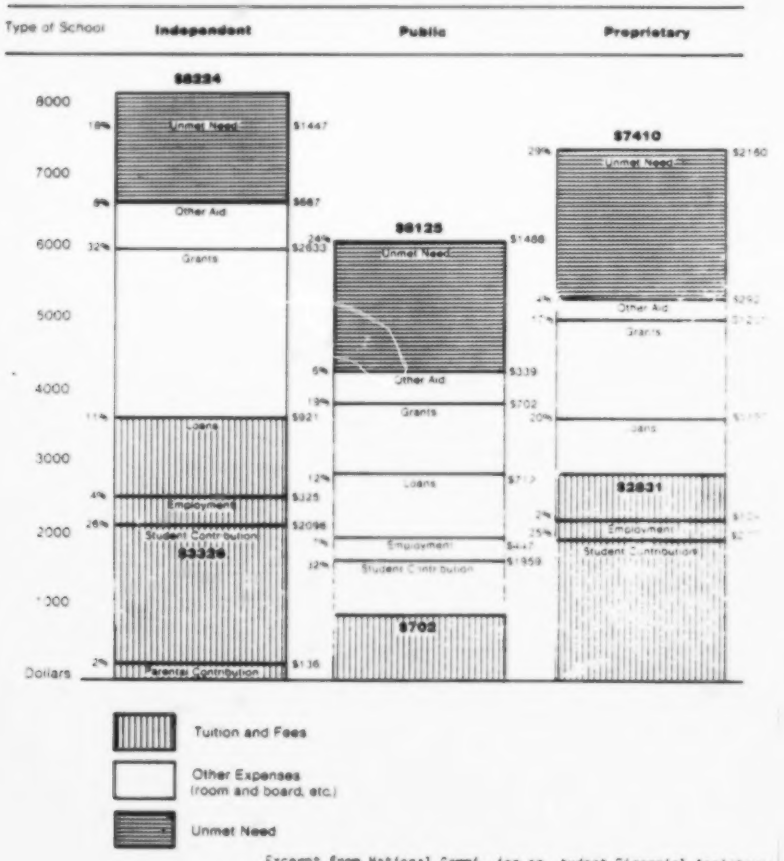
of age or older prior to July 1 of a given award year. Such students shall not be required to include parental data on the need analysis form. If an undergraduate student is twenty-two years of age or younger on July 1 of an award year, he or she shall furnish parental data on the need analysis form, unless such student is an orphan or ward of the court, is married, is single with dependent children, or is a veteran of the Armed Services; or both of the student's parents are deceased. If any of the foregoing exceptions occur, such student shall be considered to be independent. Notwithstanding the foregoing, the financial aid administrator in each institution of higher education may exercise his or her professional judgement in making exceptions to the requirement that students submit parental data as individual circumstances dictate.

The current definition of independent student is limited and does not take into account the changing nature of the student population. The revised definition incorporates criteria which is easily identified and verified, yet recognizes those students who are in fact self-supporting. The laungunge also provides some discretion to financial aid administrators who may be aware of the individual circumstances which override the need of the student, to submit parental data, as for example family discord where the parents refuse to support their child's education.

6. We recommend a change in the law to define a full-time student in a clock-hour school. Due to the increase of theory-oriented course work at many private occupational schools, the 900 clock hour academic year now required is excessive and should be in conformity with the Veterans Administration requirement of 792 clock hours (22 hours per week times 36 weeks) for shop-oriented courses and 648 clock hours (18 hours per week times 36 weeks) for courses that are primarily theory related. We believe that an appropriate figure for the definition of a full-time student should be 720 clock hours (20 hours per week times 36 weeks).

Mr. Chairman, I thank you for this opportunity to present our views on PELL Grant issues today, and I will attempt to respond to any questions that you or other members of the Subcommittee may have about the points I have raised.

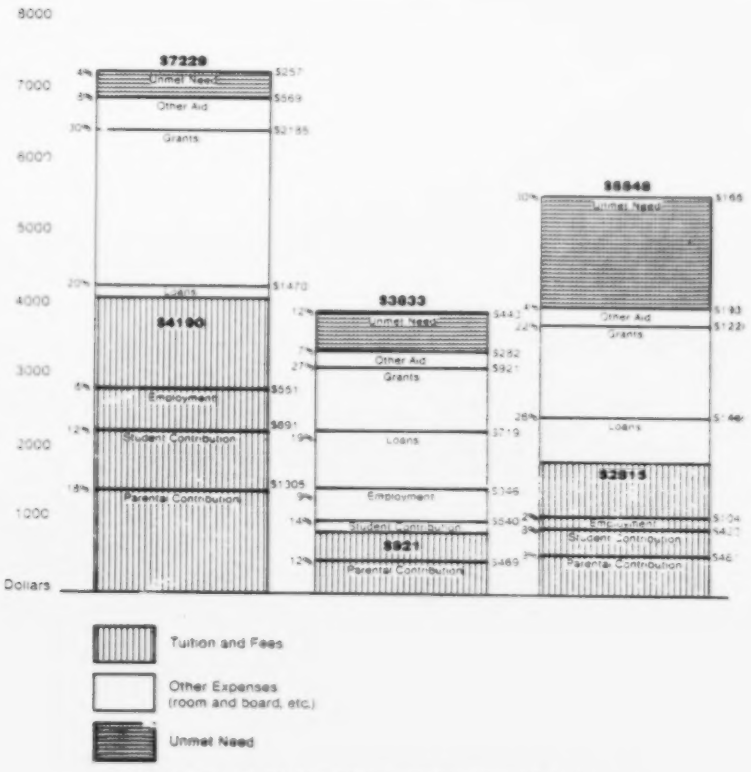
Independent Students
Sources of Meeting Expenses



Excerpt from National Commission on Student Financial Assistance study, May 3, 1983

BEST COPY AVAILABLE

Dependent Students
Sources of Meeting Expenses



Excerpt from National Commission on Student Financial Assistance Study, May 3, 1983

BEST COPY AVAILABLE

1981-82 School Year

	Highschool Graduate	D/I	Age	Family Size	Unemployed/ Employed At Start of School	Completed Training	Obtained Employment	Loan Amount	Grant Amount*
Larry B.	Yes	I	32	4	Unemployed	Yes	Chrysler Engineering Repairman	$1,296	$2,296
David B.	No	I	25	1	Unemployed	Yes	No Information	$1,440	$2,176
Alan K.	Yes	I	30	___	Unemployed	Yes	GM Proving Grounds, Auto Mechanic	$1,410	$1,176
Douglas K.	Yes	I	30	4	Unemployed	Yes	Colonial Standard Gas Station - Auto Mechanic	$1,485	$1,259
James E.	Yes	I	26	1	Employed (at minimal wage)	Yes	JIM'S Quik Start Mechanic	$2,303	$1,514
Curtis D.	Yes	I	32	4	Unemployed	Yes	Chrysler - Warren Truck	$1,410	$ 936
SUMMARY INFORMATION AND AVERAGES	83% Yes 17% No	100% Independent	30.6	2.3	83% Unemployed 17% Underemployed			$1,562	$1,577

* Includes Pell and SEOG Awards

1984-85 School Year

	Highschool Graduate	D/I	Age	Family Size	Unemployed/ Employed when Started School	Completed Training	Obtained Employment	Loan Amount	Grant Amount
Michael M.	GED	I	23	3	Unemployed	Yes	Bill's Auto Service Mechanic	$2,342	$1,847
Donnell F.	No	I	25	4	Unemployed	Yes	Self-Employed Mechanic & Tow Truck Driver	$2,320	$1,795
Joseph A.	Yes	D	23	1	Unemployed	Yes	Sear's - Oil, Tire, and Battery Section	$2,346	$1,154
John A.	GED	I	25	4	Unemployed	Yes	Mechanic (9/85)	$2,403	$1,847
Willie C.	No	I	24	8	Bricklayer	Yes	No Information	$3,550	$2,800
Jimmy P.	No	I	25	4	Unemployed	Yes	J&D Wilson Inc.	$3,550	$2,800
	50% Yes 50% No	100% Independent	25.8	4	83% Unemployed 17% Employed			$2,852	$2,041

The average loan is now $1,270 higher than in 1981-82.

BEST COPY AVAILABLE

Mr. FORD. Thank you very much.

Dorothy Shields.

Ms. SHIELDS. I am Dorothy Shields, education director of the AFL-CIO, and I thank you for the opportunity to testify on behalf of the AFL-CIO concerning Pell grants, those grants which have assisted thousands of needy students in pursuit of higher education.

America's working families share the common goal of educating each generation to the full extent of its talents, regardless of ability to pay. Toward that end, the labor movement, through its unions, assists thousands of students each year with college scholarships, but for the great number of needy and aspiring students in this country, such assistance barely scratches the surface.

College costs have risen steadily and the average cost for attending college for 1984-85 was $4,600 for public colleges and $9,000 annually for private institutions. Pell grants, based on need, have been the Federal Government's commitment and contribution to equal access to higher education. Approximately three-quarters of the students receiving these grants come from families with incomes below $15,000. More than half are self-supporting. Nearly one-third are minority students.

Purchasing power of Pell grants has steadily diminished since 1979. In that year, the maximum grant covered about 46 percent of average college costs. In fiscal year 1985, it probably will cover 32.5 percent of average costs.

Unless this pattern is reversed, large numbers of low- and middle-income qualified students will conclude that they cannot afford to go on to college.

The American Association of State Colleges and Universities, in a recent survey, stated that from 1981-82 to 1983-84, public college student aid recipients declined 2.3 percent and student aid dropped 7 percent. Need-based grants were reduced 5.5 percent. During the same period, there had also been a 12.4-percent reduction in minority students receiving student aid.

On May 7, 1985, the AFL-CIO submitted a number of recommendations regarding the Higher Education Reauthorization Act, including Pell grants. In order to assure that Pell grant recipients receive adequate financial assistance to help them finance their college education, the AFL-CIO recommends the following changes in the Higher Education Reauthorization Act: The amount of the basic grant for a student eligible under this part shall be $2,600 for academic year 1986-87, an increase of $500 over what was actually funded for Pell grants 1985-86, and increased $200 per year up to a total of $3,400 for academic year 1990-91.

The amount of the basic grant shall be increased from 60 to 70 percent of the cost of attendance with a formula for allowance for books, transportation, supplies, room and board as follows, which I will not read, but is included in the testimony.

There are approximately 12 million students currently attending colleges and universities in the United States. Approximately half of all full-time undergraduate students in the United States received some form of financial aid. However, because of inflation, student financial aid in 1984-85 is worth almost 15 percent less

than 1980-81. Yet, despite the growing need for financial assistance, the Reagan administration has proposed a number of major budget reductions for student aid since taking office and these, too, are delineated in the testimony and I will not go through them right here.

We commend Congress, however, for resisting the administration's onslaught against student financial aid. We agree with the Carnegie Foundation for the Advancement of Teaching when it recently stated in its first public stand on a single educational policy issue that the historic partnership between higher education and the Federal Government is being challenged by a shortsighted emphasis on budget-cutting of Federal programs.

The Carnegie Foundation's "Sustaining the Vision" concluded with the following statement:

> The aim of education in our democracy is not only to prepare the young for work, but to enable them to live in dignity and purpose; not only to generate new knowledge, but to channel knowledge to humane ends; not merely to learn about our civic institutions, but to shape a citizenry that can weigh decisions wisely and promote the public good. This nation's greatest strength is not its weapons, but its people. Our greatest hope is not technology, but the potential of coming generations. Education is, as it has always been, an investment in the future of the nation.

The AFL-CIO believes that disinvestment—there was an error in the statement—in student aid is an attack on the principle and practice of equal access to higher education and would inevitably produce greater stratification in our society.

The AFL-CIO calls upon Congress to continue the Federal partnership role in student aid by supporting increases in the Pell Grant Program and by opposing further restrictions on eligibility.

The AFL-CIO does not wish to see the 20th century end as it began, with choice in postsecondary education defined not by ability, but by bank balance. Workers and their families will be the poorer for it. So will America.

[The prepared statement of Dorothy Shields follows:]

PREPARED STATEMENT OF DOROTHY SHIELDS, DIRECTOR, DEPARTMENT OF EDUCATION, AFL-CIO

We thank you for the opportunity to testify on behalf of the AFL-CIO concerning Pell Grants, those grants which have assisted thousands of needy students in pursuit of higher education. America's working families share the common goal of educating each generation to the full extent of its talents regardless of ability to pay. Towards that end, the labor movement through its unions, assists thousands of students each year with college scholarships, but for the great number of needy and aspiring students in this country, such assistance barely scratches the surface.

College costs have risen steadily and the average cost for attending college for 1984-85 was $4,600 for public colleges and $9,000 annually for private institutions. Pell Grants, based on need, have been the federal government's commitment and contribution to equal access to higher education. Approximately three-quarters of the students receiving Pell Grants come from families with incomes below $15,000. More than half are self-supporting. Nearly one-third are minority students.

Purchasing power of Pell Grants has steadily diminished since 1979. In that year, the maximum grant covered about 46 percent of average college costs. For Fiscal 1985, a maximum Pell Grant only covers approximately 32.5 percent of average costs. Unless this pattern is reversed, large numbers of low- and middle-income qualified students will conclude that they can not afford to go to college.

The American Association of State Colleges and Universities (AASCU), in a recent survey, stated that from 1981-1982 to 1983-1984 public college student aid recipients declined 2.3 percent and student aid dropped 7 percent. Need-based grants were reduced 5.5 percent. During the same period there has also been a 12.4 percent reduction in minority students receiving student aid.

On May 7, 1985 the AFL–CIO submitted a number of recommendations regarding the Higher Education Reauthorization Act including Pell Grants. In order to assure that Pell Grant recipients receive adequate financial assistance to help them finance their college education the AFL–CIO recommends the following changes in the Higher Education Reauthorization Act:

The amount of the basic grant for a student eligible under this part shall be $2,600 for academic year 1986–1987, an increase of $500 over what was actually funded for Pell Grants for 1985–1986, and increase $200 per year up to a total of $3,400 for academic year 1990–1991. The grant shall be reduced by an amount equal to the amount determined to be the expected family contribution with respect to that student for that year.

The amount of the basic grant shall be increased from 60% to 70% of the cost of attendance with a formula for allowance for books, transportation, supplies, room and board as follows:

$1,800 to students without dependents residing at home with parents or $2,600 to students residing either on-campus in institutionally owned or operated housing or off-campus, but not with parents, during the academic year 1986–1987. Both amounts shall increase by $100 each year up to $2,200 for students residing with parent and $3,000 for students not residing with parents for acedemic year 1990–1991.

There are approximately twelve million students currently attending colleges and universities in the United States. Approximately half of all full-time undergraduate students in the United States received some form of financial aid. However, because of inflation, student financial aid in 1984–85 is worth almost fifteen percent less than 1980–81. Despite the growing need for financial assistance, President Reagan has proposed a number of major budget reductions for student aid since taking office including:

1981—Cutting Pell Grant funding by 10%, guaranteed student loans by 31%, and Aid to disadvantaged students by 10%.

1982—Cutting Pell Grants by nearly 50% and disadvantaged student aid by 45%.

1983—Cutting disadvantaged student aid by 80%, and requiring students to contribute 40% toward their college expenses in order to qualify for a Pell Grant.

1984—Cutting disadvantaged student aid by 50% and eliminating all programs except Pell Grants and work study.

For Fiscal 1985, Congress authorized increased amounts for Guaranteed Student Loans and Pell Grants over the President's objections. However, the President wanted to slash student aid in FY 1986, including Pell Grants. We commend Congress for resisting the Administration's onslaught against student financial aid. We agree with the Carnegie Foundation for the Advancement of Teaching when it recently stated in its first public stand on a single educational policy issue that the historic partnership between higher education and the federal government is being challenged by a shortsighted emphasis on budget-cutting of federal programs. The Carnegie Foundation's "Sustaining The Vision" concluded with the following statement:

"The aim of education in our democracy is not only to prepare the young for work but to enable them to live in dignity and purpose; not only to generate new knowledge, but to channel knowledge to humane ends; not merely to learn about our civic institutions, but to shape a citizenry that can weigh decisions wisely and promote the public good. This nation's greatest strength is not its weapons but its people. Our greatest hope is not technology but the potential of coming generations. Education is, as it has always been, an investment in the future of the nation."

The AFL–CIO believes that this investment in student aid is an attack on the principle and practice of equal access to higher education and would inevitably produce greater stratification in our society. The AFL–CIO calls upon Congress to continue the federal partnership role in student aid by supporting increases in the Pell Grant program and by opposing further restrictions on eligibility. The AFL–CIO does not wish to see the 20th century end as it began, with choice in postsecondary education defined not by ability but by bank balance. Workers and their families will be the poorer for it. So will America.

Our May 7, 1985 Statement and 1983 Convention Resolution on Education are attached.

CURRENT LAW TITLE IV - STUDENT ASSISTANCE STUDENT FINANCIAL ASSISTANCE	SUGGESTED AMENDMENT OR SUBSTITUTE	RATIONALE/EXPLANATION TITLE IV - STUDENT ASSISTANCE
S 411(a) (2) (A) (i)	S 411(a) (2) (A) (i)	
(2)(A)(i) The amount of the basic grant for a student eligible under this part shall be -- (I) $1,900 for academic year 1981-1982; (II) $2,100 for academic year 1982-1983; (III) $2,300 for academic year 1983-1984; (IV) $2,500 for academic year 1984-1985; and (V) $2,600 for academic year 1985-1986; less an amount equal to the amount determined under section 482 to be the expected family contribution with respect to that student for that year.	(2)(A)(i) The amount of the basic grant for a student eligible under this part shall be -- (I) $2,600 for academic year 1986-1987; (II) $2,800 for academic year 1987-1988; (III) $3,000 for academic year 1988-1989; (IV) $3,200 for academic year 1989-1990; and (V) $3,400 for academic year 1990-1991; less an amount equal to the amount determined under S 482 to be the expected family contribution with respect to that student for that year.	The average cost for attending college in 1984-1985 is $4,600 for public colleges and universities and $9,000 for private institutions. Pell Grants, based on need, do not currently provide adequate financial assistance to low and middle income students to help them finance their postsecondary education. Approximately three-quarters of the students receiving Pell Grants come from families with incomes below $15,000. More than half are self supporting. Nearly one-third are minority students. The purchasing power of Pell Grants has diminished since 1979 to the point where the maximum grant only covers approximately 31 percent of average college costs. Unless this pattern is reversed, large numbers of low and middle income but qualified students will conclude that they can not afford to go to college.
(ii) In any case where a student attends an institution of higher education on less than a full-time basis during any academic year, the amount of the basic grant to which that student is entitled shall be reduced in proportion to the degree to which that student is not so attending on a full-time basis, in accordance with a schedule of reductions established by the Secretary for the purposes of this division. Such schedule of reductions shall be established by regulation and published in the Federal Register not later than January 1, 1981, October 1, 1981, and on October 1 of each succeeding year.	(ii) No proposed change except that the date on which the Secretary shall publish the schedule of reductions shall be January 1, 1986, October 1, 1986 and on October 1 of each succeeding year.	

-00[illegible] 51

BEST COPY AVAILABLE

BEST COPY AVAILABLE

§ 411(a)(2)(B)(i)

(B)(i) The amount of a basic grant to which a student is entitled under this subpart for any academic year shall not exceed --

(I) 30 per centum of the cost of attendance (as defined under section 482(d) at the institution at which the student is in attendance for that year, when the maximum grant is less than or equal to $1,900;

(II) 55 per centum of such cost of attendance when the maximum basic grant is more than $1,900 but is less than $2,100;

(III) 60 per centum of such cost of attendance when the maximum basic grant is at least $2,100 but is less than $2,300;

(IV) 65 per centum of such cost of attendance when the maximum basic grant is at least $2,300 but is less than $2,600; and

(V) 70 per centum of such cost of attendance when the maximum basic grant is $2,600.

§ 411(a)(2)(B)(i)

(2)(B)(i) The amount of a basic grant to which a student is entitled under this subpart for any academic year shall not exceed 70 per centum of the cost of attendance (as defined under section 482(d) at the institution at which the student is in attendance for that year.

(2)(B)(ii) For purposes of determining the amount of a student's Pell Grant, cost of attendance shall be determined under section 482(d). However, sections 482(d)(2) and 482(d)(3) shall not apply. Instead, an allowance for room and board, books, supplies, transportation, and miscellaneous personal expenses shall be granted in the following amounts--

(I) $1,800 to students without dependents residing at home with parents or $2,600 to students residing either on on-campus in institutionally owned or operated housing on or off-campus but not with parents during the academic year 1986-1987;

(II) $1,900 for students residing with parents and $2,700 for students not residing with parents during the academic year 1987-1988;

continued

(III) $2,000 for students residing with parents and $2,800 for students not residing with parents for academic year 1988-1989;

(IV) $2,100 for students residing with parents and $2,900 for students not residing with parents for academic year 1989-1990; and

(V) $2,200 for students residing with parents and $3,000 for students not residing with parents for academic year 1990-1991.

S 411(a) (2) (B) (ii) becomes (iii)

S 411(a) (2) (B) (iii) becomes (iv)

CURRENT LAW

TITLE IV - STUDENT ASSISTANCE

PART B - FEDERAL, STATE, AND PRIVATE PROGRAMS OF LOW-INTEREST INSURED LOANS TO STUDENTS IN INSTITUTIONS OF HIGHER LEARNING

TITLE IV - STUDENT ASSISTANCE

PART B

The following recommendations are made for changes in the Guaranteed Student Loan program:

- The 5 percent origination fee will be eliminated;
- Students would have the option of consolidating eligible student loans, prior to entering repayment, with a lender holding any one of its outstanding loans. Repayment may be extended up to 15 years.

TITLE IV - STUDENT ASSISTANCE

PART B

- **Elimination of Origination Fee** - The loan origination fee was originally established to gain short-term savings for the GSL program when T-Bill rates were above 17 percent. Now that rates are at a lower rate, the immediate savings are not as crucial, and the 5 percent fee reduces the amount of money students have to attend school in a period of rapidly rising tuition costs.
- **Consolidation of Loans** - The authority for students to consolidate loans, established under the 1980 amendments to the Higher Education Act, should be extended. This would reduce the possibility that borrowers will default or declare bankruptcy rather than pay off their indebtedness when they finish their academic careers.

CURRENT LAW
TITLE IV - STUDENT ASSISTANCE

TITLE IV - STUDENT ASSISTANCE
ADULT LEARNERS (New)

TITLE IV - STUDENT ASSISTANCE
ADULT LEARNERS

Title IV, Part F would become Part G, and a new Part F for Adult Learners would be created establishing a parallel direct grant program (similar to Pell Grants) designed specifically to serve the needs of adult learners. This program would provide direct grants to needy individual adults who are enrolled in a structured instructional program where the purpose of that program is to enable the adult learner to continue current employment, advance within his or her field, or enter the employment market. The adult learner direct grants would be administered in the same manner as Pell Grants except that adults would be eligible for such grants who are attending structured post-secondary instructional programs on less than half-time basis.

BEST COPY AVAILABLE

[Adopted by the Fifteenth Constitutional Convention of the AFL-CIO, Hollywood, Fl., Oct. 3-6, 1983]

EDUCATION

A public education system of quality and equity is critical to the health of a democracy. In our continuing effort toward that goal the AFL-CIO makes the following recommendations:

ELEMENTARY AND SECONDARY EDUCATION

The AFL-CIO recognize the need for a federal leadership role in solving problems of national significance in education. We urge the President and Congress to enact legislation necessary to implement the recommendations for strengthening public education as cited by the National Commission on Excellence in Education. We support and encourage the full and expanded funding in Chapter I of the Elementary and Secondary Education Act as an effective compensatory education program that should be available to all elementary and secondary students in need of such services. We reaffirm our commitment to categorical programs to assist the non-English speaking, the handicapped and Indian children. We seek restoration of funds to assist schools in desegregation efforts and resources appropriate to the need for the new federal math and science program. We oppose educational vouchers, tax credits and block grants as inefficient, ineffective and destructive methods of funding proven programs in public institutions.

We urge all affiliates to work at the state and local level to achieve legislative and public support for fair and just school financing reform and teacher salaries.

We encourage our affiliates to continue their cooperative efforts with teachers and schools in providing information, instruction and materials on the role of the labor movement and its contribution to the social and economic policies of this country.

VOCATIONAL EDUCATION

The AFL-CIO believes that vocational education should receive adequate resources to implement programs of quality and competency. Sufficient resources must be authorized for equipment, teacher training and equity goals.

The AFL-CIO urges the Congress to maintain vocational education advisory councils with strengthened provisions that assure fair labor representation at the local, state and national levels.

In the area of new initiatives, additional funds should be provided for training and retraining of adults entering or already in the job market. Such funds should also be designed to assist workers who are victims of structural unemployment and industrial dislocation. There is an urgent need to equip adult workers with competencies that match the requirements of our factories and offices affected by rapid technological change.

ADULT AND WORKER EDUCATION

The AFL-CIO urges Congress to fully fund the Adult Basic Education program and not reduce its effect by consolidation and block grants. We encourage our affiliates to promote expanded opportunities for education and training for their members to alleviate the distress of unemployment and retrain the workforce. The AFL-CIO urges its affiliates to support labor education centers at public institutions through active participation in advisory councils.

HIGHER EDUCATION

The AFL-CIO calls upon Congress to oppose the Reagan program of retrenchment in financial aid for students of post-secondary and higher education programs. We encourage our affiliates to resist Administration policies that support private institutions at the expense of public institutions and wealthy students at the expense of low-income and middle-class students. Administration attempts to restrict Pell Grant eligibility should be opposed, and Pell Grant should be funded at their pre-1981 levels.

Mr. FORD. Thank you very much.

Mr. Hayes.

Mr. HAYES. Thank you, again, Mr. Chairman.

May I ask—maybe it is a comment I wind up making—in your final paragraph, Ms. Shields, you said that the AFL-CIO believes that this investment in student aid is an attack on the principle and practice of equal access to higher education which would inevitably produce greater stratification in our society.

I am in total agreement with that. I may go a little further, though, and maybe you would comment on this: I don't think it is by accident; I think it is by design. Some people in positions of power are not willing to continue to spend money to assist disadvantaged poor economically poor disadvantaged students, be they minority or white, in getting an education. There are misfits in this society of ours.

I would like your comment on that.

Ms. SHIELDS. The AFL-CIO believes that—and would have as its ideal position—that every student be entitled to full access and full funding of education from the time they start through higher education. We are very concerned and we receive phone calls on the average of two and three a day whenever there is an announcement about a new attack on providing student aid, providing Pell Grants and when the chairman was talking about the information on the street and how we disseminate information, we at the national AFL-CIO headquarters are even involved in dissemination to students of union members who call because they cannot get the information and we used to advertise in this book that we distribute to some 5 to 10,000 union children the 800 number so that they would be able to have direct access to information about the student aid programs.

We are terribly concerned about the idea that higher education is only for those who can afford it. We are totally opposed to that concept and we are working with our members and would certainly hope, although we know it is very difficult with the budget deficit, that we could educate people to perhaps put more of an investment in the education area and perhaps less dollars in other programs.

Mr. HAYES. I quite well agree that the AFL-CIO position—what the AFL-CIO position is, but I still think that this is by design. Some have already concluded who the misfits in this society are for the future and I think there are those disadvantaged people who don't have money and when you mention the escalation of those who are very—have great wealth, and you couple that with the educational opportunities which are no problem to them, and we cut off the aid and assistance to those who are disadvantaged economically, I think it is done on purpose because they are not needed.

I want to move over to Dr. Rotella there for just one question. Do you have any percentages—I guess it is a continuation of my thinking on the question I just raised—do you have any figures of the percentages of minorities and women, particularly blacks and hispanics, who are currently enrolled in the city colleges of Chicago?

Mr. ROTELLA. Yes, sir, about 45 to 50 percent of our students in the city colleges of Chicago are black; about 14 to 15 percent are Hispanics; then a few percent, small percentage of Asian Americans, especially the newly arrived Asian Americans, and the rest are white.

So the—of course, the composition of each one of our colleges, since we have them distributed throughout the city, does not reflect that kind of ratio. Some colleges in the heavily black areas will be heavily black; some colleges on the northwest side of Chicago will be heavily white; and one college, Truman College, is a bit of a United Nations of the city with all sorts of newly arrived people represented in that college.

We tend to serve mostly first-generation college students. This is one thing that both whites, blacks, and of course, Hispanics, have in common. They are most likely first-generation college students.

Mr. HAYES. I don't know whether you heard it or not, but one of the panelists on the previous panel said quite clearly that a loan program is not what we need. We need grants.

Mr. ROTELLA. For a person who comes from a disadvantaged background, the idea of incurring a loan and repayment is really alien. I think it is a lot easier not to go to school. The question for us is whether we are going to encourage that individual to develop his or her potential to the highest level.

Incidentally, as part of your first question, I must emphasize that we serve a large number of women, especially in the minority women. A lot of these women have children and to incur a guaranteed loan of $2,500 is totally impossible. How are they going to pay it back? Once they finish with us, they are usually in programs of 2-year duration or less than 2-year duration—their income is not going to be so spectacular that they have excess cash to pay back those loans, even if the payment for us middle-class people would be a small payment per month. To take $100 or $115 out of a paycheck of a woman who is raising two or three children is almost unthinkable, so we are dealing, in a sense, with a mindset that will not go to loans. It takes a lot of rationality and a lot of psychological security in terms of interacting with society to make a commitment and, of course, you know very well that even though there is a positive correlation between education and potential earning.

We are not sure that that potential earning is going to be there. It is a risk and a woman with three children is not going to take that risk.

Mr. HAYES. Thank you, Mr. Chairman. No further questions.

Mr. CARTER. Mr. Chairman, if I might just support that, what has been said, in our schools, which are quite varied, but in the ones that I am directly involved in, I know we have people that come in to interview about enrolling and when they see the amount of the loan they are going to have to incur, never come back. So I think this is a widespread situation.

Mr. FORD. We heard this morning, Dorothy, from Mr. Moore, representing the U.S. Student Association, reference the 800 line and you said that you formerly disseminated that number. When did the Department discontinue the information service?

Ms. SHIELDS. I couldn't be positive, Congressman. My own feeling is somewhere in 1982–83.

Mr. FORD. Thank you very much.

I think we will have to find out how much we have reduced the deficit by not doing that. I think, really, it works. It doesn't work because you save the telephone bill; it works because a lot of kids don't go to school and they don't come to us for money. So it is a

way in which you deal with the problem by ignoring it studiously and accidentally, it will adjust itself. We will see what we can do about taking the Secretary up on what he said in front of the committee when he said, in justification of the administration's budget, that it was their intention to reemphasize aid to the lowest-income students and those with the least resources in our society. It made me a little uneasy when he said that we ought to help everybody go to some school, suggesting that some people were fit for some kinds of schools and other people for other kinds of schools.

We will see if we can't have a talk with him about reinstituting that sort of effort so that at least we tell people the truth when they have taken the initiative to try to find out what is going on. I represent a very highly unionize area, primarily the largest group being the UAW. I know that they spend a good deal of time and effort trying to educate their people. I spend an awful lot of time answering questions with them that are predicated on bad information and they have the same tendencies as everybody else. The President proposed that this happen and then they pass it on. The first thing you know, the word has gone throughout my district that every family having a joint income of $32,500 is completely out of it; don't encourage your kids to try to go to school, and then that translates into another problem for me. They say, "Once again, the Government is giving it to them and people who work for a living are not going to get any help."

That is how they perceive a number of programs as being something they pay for, but their kids can't participate in and that destroys the very important public support for trying to get more money for the program. If they believe that these programs are unduly restrictive in the sense of only dealing with a portion of the population that they may well be a part of, but they don't identify with that. I have yet to run into people who think of themselves as poor, even if they are making subminimum wages. If they are working, they are not poor. It is the American nature for most people to think of themselves as middle class. I smile when I hear people defining middle class because my friends who are doctors and lawyers and are in the quarter-million-dollar-a-year range call themselves middle class and the kid working in the gas station on the corner for minimum wage calls himself middle class. Someplace in between, there is something called the middle class. It doesn't have as much significance, but economists talk about it with such willingness to be able to define it for us. I think what they overlook is that the middle class is whatever you think you are.

It is very hard to get somebody to admit that they are wealthy unless it is at the country club and they are outdoing each other by comparing their wealth, but in almost every other environment, my friends who do have substantial incomes tend to talk about the poor, overburdened middle class and how everything comes down on the middle class. They get just as mad when they read in the paper about a tax bill impacting on the middle class as anybody else does. I find it very interesting to see people now launching an attack on the middle class because I have spent so many years defending myself with people who perceive themselves to be middle class because I have supported programs like the creation of the

Pell Grant Program, which we call the Basic Education Opportunity Grant in 1972 and targeted it toward low-income people.

The old poverty program, I still have scars from trying to keep that alive. We found that the people that were being most directly affected never identified with it, as long as the terminology was out there, and now it is very strange for me to see people trying to influence public opinion by saying the middle class has got it too good.

I appreciate the help that all of you have given to the committee and the prepared statements and appendices and exhibits that you have given to us. I thank you very much for your cooperation and the committee will stand now in recess until Thursday at 9:30.

[Whereupon, at 12:10 p.m., the subcommittee was adjourned, to reconvene at 9:30 a.m., Thursday, June 27, 1985.]

REAUTHORIZATION OF THE HIGHER EDUCATION ACT

Pell Grant and Campus Based Programs

Volume 2

THURSDAY, JUNE 27, 1985

HOUSE OF REPRESENTATIVES,
COMMITTEE ON EDUCATION AND LABOR,
SUBCOMMITTEE ON POSTSECONDARY EDUCATION,
Washington, DC.

The subcommittee met, pursuant to call, at 10:10 a.m., in room 2175, Rayburn House Office Building Hon. William D. Ford (chairman of the subcommittee), presiding.

Members present: Representatives Ford, Dymally, Atkins, Coleman, Gunderson, McKernan, Henry, Goodling, and Petri.

Staff present: Thomas R. Wolanin, staff director; Kristin Gilbert, clerk; Maryln McAdam, legislative associate; Rose DiNapoli, minority legislative associate; and Richard DiEugenio, minority counsel.

Mr. FORD. I am pleased to call to order this hearing of the Subcommittee on Postsecondary Education of the U.S. House of Representatives, as we continue our hearings on the reauthorization of the programs contained in the Higher Education Act.

Today's hearing is the second of two hearings on the Pell Grant Program. The Pell grant, formerly called the basic educational opportunity grant, is the foundation program of Federal student aid, and we are looking forward to hearing testimony this morning on the basic structure of the program as well as ideas for improving its administration.

I would like to say at the outset that we have not been able to accommodate all the folks who would like to appear formally and testify on the record. However, we invite everyone who has any comments, or suggestions, or criticisms that they wish to make, to submit those, and as we move through the reauthorization, subject matter by subject matter, we will be pleased to enter those in the record together with the testimony presented in a formal way in front of the committee, and that includes any comments that you might want to make on what panelists or members say in questioning panelists, as you observe them here.

Mr. Coleman.

Mr. COLEMAN. I have no opening statement, Mr. Chairman.

Mr. FORD. The first panel will be Mr. Robert Atwell, president of the American Council on Education; Dr. Richard Stephens, presi-

dent of Greenville College, Greenville, IL; and Mr. Morton J. Tenzer, chairman of the Committee on Government Relations, American Association of University Professors, and a professor at the University of Connecticut.

We will start first with Mr. Atwell.

Without objection, the prepared statements prepared by each of the witnesses will be inserted in full in the record. You may proceed to supplement, add to, or summarize your statement in any way you deem most appropriate.

Mr. Atwell.

STATEMENT OF ROBERT H. ATWELL, PRESIDENT, AMERICAN COUNCIL ON EDUCATION

Mr. ATWELL. Thank you, Mr. Chairman.

I'm Robert Atwell, president of the American Council on Education, representing 1,500 colleges, universities, and educational associations.

I would like to summarize the written testimony which has been introduced for the record, and I would like in these brief remarks to address some of the major features of ACE's Pell grant proposal and take note of our proposal for grants to support graduate students.

At the outset, I'd like to say that I believe that the higher education community is more united in all of its recommendations for the reauthorization of the Higher Education Act than has ever been true in the past. Certainly, we are much closer together than we were at a comparable point approaching the education amendments of 1980. A consensus has been reached on virtually all titles of the act, except title IV, student financial assistance, and we have reached agreement on most features of title IV.

Together with a Guaranteed Student Loan Program, the Pell Grant Program is really the cornerstone of Federal financial aid policy. Indeed, the objective of our reauthorization efforts is to redress some of the imbalance between loans and grants which has developed in recent years, and, to that end, we are supporting some measures as explained in our previous guaranteed student loan testimony which would achieve some cost savings in that program.

Within the Pell Grant Program, our highest priority is to concentrate resources on the very neediest students. There are really five major elements in the Pell Grant Program which can be adjusted to achieve particular objectives, and I'd like to note these and indicate ACE's position on each.

The maximum award is the first of these, and, under our proposal, that award—well, the award will be increased this next fall, under existing law, from $1,900 to $2,100 as a maximum, and, under our proposal, the maximum award would be raised to $3,000 to restore the purchasing power of the Pell award which has been seriously eroded over the past several years of essentially level funding.

Increases in the maximum award are important to students in most 4-year institutions but are particularly vital to those students attending high-priced public and private institutions where the per-

centage of institutional charges met by Pell grants has dropped precipitously in recent years.

The second major element in that Pell Grant Program is the percentage of cost to be covered by the award. This limitation was originally 50 percent and was increased to 70 percent by the 1980 amendments but, because of budgetary constraints, will be raised above 50 percent for the first time next fall when it goes to 60 percent.

That limitation falls most heavily on the lowest income students in the lowest cost institutions. Students at higher cost institutions are not affected by that limitation, since the maximum award limitation cuts off their award long before either a 50 percent or a 60 percent cost limitation would take effect.

By modifying the formula for computing Pell grant awards in the manner set forth in my prepared statement, we would save $200 million in awards to middle income students and would retarget the aid on needy students, and thus we would hold the percentage of cost to 60 percent.

The third major element is living allowances. Prior to this coming fall, the living allowance for those students living off campus and not with their parents had not been increased for 13 years. While most commuting students attend public institutions, the proportion of such students in private institutions is growing, so that the failure to provide equity between students living on and off campus falls on students in all sectors.

We propose an allowance of $3,000 for all students living on or off campus and continuation of the present $1,500 allowance for students living with their parents.

The fourth major element is the tax rates on discretionary income. As part of our theme of targeting the program on the neediest students, we propose to increase the tax rates on the discretionary income used to determine expected family contribution and compute the Pell Grant Program.

The fifth major element is the treatment of independent students. We propose that in all Federal title IV programs, except the State Student Incentive Grant Program, the definition of an independent student be tightened, so that for all students below the age of 22, family financial resources would have to be included. There would be exceptions for orphans, wards of the courts, veterans, married students, single parent families, and a few others, and essentially this would eliminate problems with erroneous or improper student declarations of independence.

Mr. Chairman, our proposals represent a departure from the past practice of ACE. We have not generally offered student aid proposals which would not be supported by all the major presidentially based associations, and we have done so in this instance because we believe very strongly that we have put together a set of proposals which go far toward meeting the needs of students in all sectors, and I am pleased to report that our proposals are being supported by the Association of American Universities and the National Association of State Universities and Land Grant Colleges.

Some in the private sector would prefer larger maximum awards and would argue for a distinction between tuition and fees charged by the institution and living expenses. They would support the

former more generously than the latter. Not only would this be a marked departure from the unitary cost of attendance concept which has been part of the Pell Grant Program from the beginning, but it would also create, in our judgment, a distinction without a substantial difference. To most students attending college, the question of cost applies both to charges levied by the institution and the cost of living.

Some in the public sector would place the highest priority on an increase in the percentage of cost covered by Pell grant awards and increases indexed to inflation in the living allowances. We believe that these objectives can be achieved along with an increase in the maximum award which is the highest priority of the private sector.

I want to conclude with a thought that a new initiative in the area of graduate education along the lines we may have suggested may well be the most important part of the title IV proposals. It is now becoming apparent that the profession of college teaching is endangered by the surpluses of the past which will soon become the shortages of the future as the faculty retirement bulge begins in the early 1990's.

We are no longer attracting to a great extent the best and the brightest into a profession characterized until now but not much longer by surpluses. Graduate fellowships have not been available to most students, and the program we are proposing is only the beginning. Unless the teaching profession draws a larger proportion of the best and brightest, we should all fear for the Nation and our competitive position as we approach the next enrolment boom into the 1990's. So I especially hope the committee will give serious consideration to the graduate education proposal.

Thank you, Mr. Chairman.

[The prepared statement of Robert H. Atwell follows:]

PREPARED STATEMENT OF ROBERT H. ATWELL, PRESIDENT, AMERICAN COUNCIL ON EDUCATION

Mr. Chairman and Members of the Subcommittee, thank you for the opportunity to present the recommendations of the American Council on Education for changes in the Pell Grant program, and a series of related recommendations for Title IV student aid programs.

Our Pell Grant recommendations are supported by the Association of American Universities and the National Association of State Universities and Land-Grant Colleges, and we believe they offer a promising approach for resolving the different approaches taken by the other higher education associations representing the public and independent sectors. Our recommendations for the other Title IV programs do in fact represent a strong consensus of all the major associations of colleges and universities.

At the outset I would emphasize the extent of agreement that already exists. Both the public and independent sectors agree on the principle that federal student aid should be targetted more effectively on the neediest students. We agree that awards and living expenses for needy students should be increased substantially to reverse the serious erosion in the value of aid resulting from inflation and inadequate funding in recent years.

Our principal, shared objective is to correct the imbalance between grants and loans that has imposed a growing burden of debt on students and their families. Between 1978 and the present, loans have grown from 13 percent of federal assistance to almost 50 percent of federal aid. At the Subcommittee's June 5 hearing, ACE presented a set of recommendations on behalf of all the major institution-based associations that are designed to achieve significant cost savings in the Guaranteed Loan Program. These savings would free up additional funding for Pell Grants and the other Title IV programs. We endorse the conclusions of the National Commission on Student Financial Assistance that these programs have generally served the nation

well, are not in need of radical revision, and have as their most serious problem their perennial underfunding.

Despite these broad areas of agreement, there remain major points of difference between substantial portions of the public and independent sectors over specific changes to be made in the Pell Grant program. The public sector generally supports the provisions of current law, which base the amount of the individual award on the difference between family contribution and total education costs, including living expenses as well as institutional charges. The independent sector argues that Pell Grants should be based primarily on tuition and fees, with living expenses limited to those with family incomes below 150 percent of the poverty level.

ACE's recommendations would accommodate both of these views. We propose larger awards that make more realistic assumptions for living costs and provide greater tuition sensitivity. The increased costs would be funded in part by correcting an anomaly in the current law which distributes disproportionately greater benefits to middle-income students at lower-priced institutions.

NEEDED CHANGES IN PELL GRANTS

Our highest priority is to increase the size of grants provided to the neediest students. The Pell Grant program, currently providing foundation support for some 2.9 million recipients, is the primary vehicle for addressing this priority. Unfortunately, constraints on federal spending have severely limited increases in the maximum award; consequently, many low-income students have resorted to borrowing before they have established an academic track record, and in turn have dropped out of school and defaulted on loans. Others simply have not enrolled in postsecondary education because of reluctance to assume debt which they have doubts about their ability to repay.

We therefore strongly recommend a substantial increase in the Pell Grant maximum award, a more realistic assumption of living costs for commuter students, and the replacement of the Bureau of the Census (Orshansky) poverty index with the Bureau of Labor Statistics (BLS) low budget for the family-size offset, to make a dramatic impact on the amount of funds available to low-income students:

Increasing the maximum award from $2100 to $3000 would provide approximately 50 percent of the average public and independent college charges for tuition, room, and board, thus restoring the original value of the Pell award, which has been seriously eroded by inflation in recent years.

Assuming expenses of $3000 for all students living on- or off-campus, and continuation of the existing $1500 assumption for those living with parents, would more closely approximate minimal living and miscellaneous expenses, and provide relative equity among students in similar circumstances. The existing $2000 assumption for living and miscellaneous expenses for students living off-campus and not with parents is clearly inadequate, and is less than the expenses allowed most students living in campus housing.

Replacing the Orshansky index with the BLS low budget would make the family-size offset, the basic amount deducted from the family's income in calculating their expected contribution, more realistic and equitable than the austere poverty standard. It would also bring a measure of consistency in need analysis among the federal programs.

The formula for computing a student's cost of attendance is critical to the equity of the Pell program. Currently the formula distributes proportionately greater amounts to middle-income students at lower-priced institutions because of the operation of the percentage-of-cost limitation. This limitation (now at 60 percent) does not affect the awards of higher-income students or those of eligible students in higher-priced institutions, who receive their full entitlement. Only low-income students (over one million) in less-expensive institutions have their entitlement reduced by this limitation. To target increased funding on the neediest students, we recommend:

Modifying the Pell Grant formula to limit the size of the award to 60 percent of cost *minus expected family contribution*.

Presently, the award is computed by subtracting expected family contribution from the maximum award, but the award cannot exceed 60 percent of cost, or need, which is defined as 100 percent of cost minus expected family contribution. Therefore, under current law, middle-income students in lower-priced institutions can receive an award which in combination with their expected family contribution, equals 100 percent of cost. In contrast, the neediest student cannot receive an award which exceeds 60 percent of cost even though he has no expected family contribu-

tion to supplement it. He must still find the remaining 40 percent of his educational cost, while the middle-income student has his total needs met.

Our proposal would assure that no one receives an award which, in combination with expected family contribution, exceeds the award received by the neediest students at that institution. The proposal also assumes that the percentage-of-cost limitation will not be raised, but will remain at 60 percent to maintain approximately the current balance of assistance for needy students in the public and independent sectors.

Modifying the current provisions in this way would limit the awards of 650,000 Pell recipients and reduce the cost of our proposal by $208 million. Recipients in the lowest-priced institutions with family incomes between $20,000 and $30,000 would have their awards limited an average of $500 below what they would receive if their expected family contribution were not substracted from 60 percent of cost.

For example, if the maximum grant were increased to $3000 under the current formula, a dependent student from a family making $21,000, with an expected family contribution of $1100, and a cost of attendance of $3200, could receive an award of $1900 ($3000−$1100=$1900), whereas the neediest student with no expected family contribution could receive only $1920 ($3200 x 60 percent=$1920). Under the ACE proposal, that same middle-income student could receive an award of $820 ($3200 x 60 percent=$1920; $1920−$1100=$820), compared to the $1920 award of the student without any family resources.

We also propose increasing the tax rates used to determine expected family contribution for dependent students from 11 percent, 13 percent, 18 percent and 25 percent on $5,000 increments of discretionary income to 18 percent, 20 percent, 24 percent and 33 percent. These rates, in conjunction with the BLS low budget standard for the family-size offset, would establish an effective income cut-off for dependent students from a family of four with one in college at $30,000 Adjusted Gross Income.

In recognition of the needs of the non-traditional student, the 1980 Amendments to the Higher Education Act mandated that the tax rates on discretionary income for independent students with dependents be the same as those for dependent students. For budgetary reasons, that provision has not been implemented. We recommend that tax rates for all students, those receiving financial support from their parents, and those not receiving such support, be the same. The amount of the family-size offset would differentiate between family units of various sizes, but the tax rates on discretionary income would be the same.

We estimate that these changes, if implmented at the proposed $3000 maximum, would provide awards to 3 million recipients—some 250,000 over the number currently served—and cost approximately $5.1 billion. The principal effect of these changes would be to increase substantially the size of awards to the neediest students.

Two additional recommendations for the Pell Grant program are supported by all of the major institution-based associations:

Institutions should be authorized to recalculate a student's Pell Grant Eligibility Index when there is a change in family circumstances or an error is discovered in the application data that would affect the student's award eligibility. Under such circumstances the institution currently cannot correct Student Aid Reports, but must refer all changes back to the central processor for recalculation, even if the error is a simple change of address. We propose that the institution should have the option to recalculate the award and make payment to the student on its own, subject to periodic review or audit by the Department of Education.

We recommend repeal of the "triggers" establishing minimum funding levels for the campus-based programs (Supplemental Educational Opportunity Grants, College Work-Study, National Direct Student Loans) as a condition for funding Pell Grants at specified levels. The triggers were originally designed for the important objective of assuring balance among the programs, but they have not been successful: they are regularly waived by the Appropriations Committees. Recognizing the futility of the trigger mechanism, we would replace it with another alternative discussed below, which would make SEOG funding an automatic percentage of Pell appropriations.

The following recommendations for other Title IV programs also represent a consensus of the institution-based associations:

SUPPLEMENTAL GRANTS

Next to Pell Grants, the Supplemental Educational Opportunity Grant (SEOG) program is the most important, providing essential support for some 727,000 needy students attending higher-priced public and independent institutions. To maintain

an equitable balance of assistance for students in all sectors of higher education, we believe that funding of the two programs should have a more systematic relationship. Therefore we recommend:

The SEOG appropriations should be tied to Pell Grant funding at a level of at least 15 percent of the appropriation. The availability of SEOG funding is essential to help make it possible for needier students to have an opportunity to attend higher-priced public and independent institutions. Sudden restriction of such opportunities would be avoided if SEOG appropriations were automatically tied to Pell funding. We recommend that this relationship be established at approximately the current ratio of funding for the two programs. By recognizing that SEOG funding is inseparable from Pell funding, it becomes unnecessary to maintain the current trigger levels which are objectionable to the Appropriations Committees. Instead of raising a policy issue for those committees, the recommendation would simplify their work by consolidating the line items for Pell and Supplemental Grants.

The SEOG program should be targetted on students with exceptional financial needy, defined as those whose family contribution does not exceed half their cost of attendance and whose family income does not exceed 200 percent of poverty (approximately $25,000, the median family income). An exceptional need requirement was formerly a part of the law, but was deleted in 1980. It should be reinstated to assure that funds are concentrated on students who would be unable to attend the institution without substantial grant assistance in addition to Pell Grants. Without this requirement, institutions in recent years have tended increasingly to award SEOGs in small amounts to middle-income students.

For SEOG and the other campus-based programs (CWS, NDSL) we propose that the state allotment formulas be deleted. These formulas are now unnecessary, because existing hold-harmless provisions protect state and institutional funding levels. The formulas (which differ for each of the campus-based programs, and which do not adequately reflect need as distinct from enrollment) simply add unnecessary bookkeeping to the process of distribution campus-based funds. at the same time, we propose that the base year for the institutional hold-harmless be updated from the current base of Academic Year 1979-80 to the 1985-86 Academic Year. This should be done to reflect current funding levels, and to provide funds for new schools which have become eligible since the 1980 Amendments, but do not have a 79-80 conditional guarantee.

Existing provisions differentiating between initial year and continuing SEOG awards should be repealed. These provisions have not served a practical function in recent years, and in fact have been ignored by the Appropriations Committees.

COLLEGE WORK-STUDY

Assuring self-help opportunities for almost a million students is the vital function of the College Work-Study program. We propose no substantive changes in this program, but make one technical recommendation related to our request for elimination of the state allocation formula. In implementing this change, we would maintain the current reservation of the first 50 percent of reallocated CWS funds for cooperative education programs under Title VIII. This useful incentive for expansion of the related Cooperative Education program is worth preserving.

NATIONAL DIRECT STUDENT LOANS

This program still serves an important role as a supplemental loan program for low-income students, as discussed in our June 5 testimony on the loan programs. We support its continuation with elimination of the state allotment formula as explained above and with one substantive modification to reinforce the primary role of NDSL: We propose that low-income students be given an explicit priority for the program, which has always been considered as a source of loans for the neediest students. In terms of the broad objective of targetting federal aid, it is important to assure that NDSL loans go first to students in greatest need.

STATE STUDENT INCENTIVE GRANTS

The SSIG program should be maintained as a useful incentive for States to make their own contribution to the support of needy students. We suggest an amendment to permit States to use their allotments in excess of current levels to support State work-study programs and/or public service programs which provide payments toward meeting college expenses. We believe it is desirable to encourage further state development of such programs in addition to or in lieu of additional SSIG funding.

SPECIAL PROGRAMS FOR THE DISADVANTAGED

We support a substantial increase in authorization levels for the TRIO programs, which provide important and demonstrably effective services to encourage the enrollment and retention of low-income, first generation, and physically handicapped individuals in college. It is estimated that fewer than 10 percent of eligibles currently receive these services, which would be expended in concert with the grant programs.

PROPOSED CHANGES IN NEED ANALYSIS

We propose a need alalysis system which, to the extent feasible, uses the same criteria and values for all federal programs. While there are some unique aspects of the Pell program in terms of tax rates on discretionary income and cost-of-attendance assumptions, the basic framework is the same for all Title IV programs. We believe that federal standards of need analysis should be prescribed for federal programs, although we also believe that institutional resources should continue to be distributed according to institutional priorities. In most cases these correspond to federal priorities, but there are some instances in which institutional criteria are more stringent because of the limited amount of institutional aid.

We propose a new standard for determining whether parental resources are asessed in determining expected family contribution for Title IV assistance. To avoid potential program abuse, we recommend that the current definition for an independent student be replaced by an age criterion (22), below which parental financial resources must be included in computing expected family contribution for all Title IV programs (except SSIG). Exceptions would be made for students who are orphans or wards of the court, those who are married or have legal dependents, veterans, and graduate and professional students. An institution could waive the requirement of parental financial data in individual cases where independence can be documented. The elements of this definition are completely verifiable, unlike the current provisions which are based on residence and amount of parental support. Our proposal is similar to the definition proposed by the Administration in its FY 86 budget documents, but is more equitable because it provides necessary exceptions for non-traditional students.

DISSEMINATING INFORMATION REGARDING FEDERAL PROGRAMS

In recent years, there have been two major handicaps to overcome in order to improve the participation of low-income students in postsecondary education. One is the need for adequate grant support; our recommendations for increased Pell funding and retargetting SEOG funds on low-income students address this concern. Equally important, however, is the need for adequate information on teh availability of student financial aid supplied as early as possible to high-school students and publicized as widely as possible for older students.

For this reason, we support the recommendations of the National Coalition on Student Financial Assistance to require the Department of Education to prepare a plan for disseminating information and counseling regarding federal programs and to allocate $5 million each year from the Department's budget to cover the costs of contracting with states and institutions or non-profit organizations to provide information to disadvantaged, minority, and handicapped individuals, adults and non-traditional learners, and other groups who are isolated by virtue of geographic location. We recommend a specific requirement that the Secretary reinstitute a toll-free telephone number to provide information on programs and assistance on how to complete an application.

We address a related issue by proposing langauage to clarify the existing statute which prohibits charging a fee to students or parents for processing applications for federal assistance. We believe that charging such a fee inhibits many low-income students and families from applying for aid, and thereby prohibits their attending institutions of postsecondary education.

NEW GRANT PROGRAM FOR GRADUATE STUDY

One of the more important of our consensus recommendations is for a new Title IV grant program to help graduate students meet the high costs of post-baccalaureate study. The imbalance between grants and loans is particularly acute at the graduate level, where the dramatic decline of federal support for fellowships, traineeships, and research assistantships (from about 80,000 in 1969 to the current 40,000) has made loans the primary means of meeting rising tuitions and fees. There is disturbing evidence that growing numbers of able students, particularly those from

low-income and minority backgrounds, are being priced out of graduate study because they cannot afford it.

Our proposed new grant program is similar to legislation introduced by Chairman Ford last year. It would be a campus-based program, with allotments to graduate institutions, which would submit applications based on the total financial needs of first- and second-year graduate students. Institutions would make grants to eligible students ranging from $1,000 to $5,000 with 20 percent contributed by the institution. We estimate that funding of this program at $200 million annually would go a long way toward assuring that talented students are not denied the opportunity for graduate study.

Because the program would be open to all graduate students with financial need and would utilize procedures similar to other Title IV need-based programs, we believe that it is appropriately placed in Title IV rather than with the more selective and targeted graduate fellowship programs of Title IX.

In summary, the recommendations we have described would target Title IV aid more effectively on the neediest students, make a number of desirable program improvements and simplifications, and enable major progress in restoring a more appropriate balance between grants and loans. We emphasize the high degree of consensus among the institution-based associations in support of these recommendations. The only differences among the sectors relate to the Pell Grant program, and the ACE recommendations are designed to bridge these differences.

Mr. FORD. Dr. Stephens.

STATEMENT OF W. RICHARD STEPHENS, PRESIDENT, GREENVILLE COLLEGE, GREENVILLE, IL

Mr. STEPHENS. Thank you, Mr. Chairman.

Richard Stephens is my name, and I'm president of Greenville College. I'm speaking on behalf of that school and of the NAICU, the National Association of Independent Colleges and Universities.

Mr. Chairman, we are a body that has a membership of approximately 850 private schools throughout the land, and Greenville College, coming from the Midwest—you might say the hinterland—happens to hit most of the means of the 850 schools on size of school, budget, and items of that sort, and I'm grateful for the honor you've given today for me to speak on this Higher Education Act reauthorization.

What I have submitted in written form contains the basic concepts that we want you and your staff to look at, but I would just like to add a few words at this point.

The first thing I think that I should do is to tell you what I know most about, namely, my own school and what its record has been over the past several years.

We have been a school that has counted on Pell grants. That's been a basic funding grant program for us. But we have counted principally on students to help themselves and their homes, to help them, and we have counted on people to make gifts to us. Approximately 40 percent of our graduates make gifts to us each year, and the lion's share of those funds goes for student aid.

We really fell on hard times about 5 or 6 years back when the Pell Grant Program was changed. I still have on my desk the list of 81 students who had received a Pell grant the prior year and, because of the changes that occurred, the next year they did not get a grant and they did not show up.

We went from having $429,000 of Pell aid in 1 year, 1980, to $359,000—a $70,000 loss in 1 year. On a $4.5 million budget, that's a lot of money. It's a lot of money to ask people to pick up on. That Pell fund then dropped to $307,000 in 1982 and $275,000 in 1983.

The upshot of that was that our student body dropped from about 879 students to this year 650 students. This year was a sort of bottoming out year for us. We had about a 20-percent increase in the new full-time, first-time freshman class this year. We were able to cut back some staff and save on costs, and of course that hurts us in the small town where we live. We have 5,300 people living in our town. We are a rural area. There are farms going broke. So people in town are very worried about what Greenville College is doing.

The wonderful thing is that our friends—calling on them to help us—have done it. So we have gone from having gifts support about 13 percent of the budget 5 or 6 years ago to this year approximately 20 percent of the budget will be supported from gifts. Those gifts do not come from big firms, corporate firms, and whatever; they come from people who have gone to school there, churches, and whatever. So we have tried to help our own selves.

We began a second-miler loan fund—that's what we call it—to help make up the shortfall from Federal losses in the Pell fund, because loans became an increasingly important way for our students to make a choice of us.

I asked people who had gone the first mile with a gift to us; I said, "Would you help us with a loan, a low-interest loan?" In the first year, about 1981 or 1982, I had $100,000 at about 5 percent, and I loaned that to students at 7 percent to help finish off if they didn't qualify for any more loans or couldn't get grants.

Furthermore, we have moved to try to build a better fiscal base under us. We had almost no permanent endowment fund. So we have begun to move there. We had accrued about $400,000 over the 86-year history of the school, and this past year we launched an endowment fund, and we are at about $1.8 million now toward $3.5 million, and that's coming from trustees, faculty, staff, alumni, and others who are saying we are going to put in an endowment fund which will support student aid.

I think most of the schools in the NAICU of our type and size have been doing similar things. So I come here to say to you that when we took our blows and enrollment happened to go down, we did things to help stabilize it, but the basic request that we have is that the Pell grants continue to be a more solid, I would call it, footing program—foundation—and I know that it can't apply to my school only, it has to apply to 2-year schools and 4-year schools, to the public sector, and others.

With these losses and with the chance that the Higher Education Reauthorization Act has for us, I come to bring a new plan that we don't think is a patchwork. We think it will target aid to the students who have the greatest need, so they can attend the school that they really need to.

On page 10 in the report that I have sent to you, our plan says that we think that the Pell grants should include a concern about price. Sensitivity to price is a very important factor to us.

We think, furthermore, that Pell grants should help students with living costs. We think we should target the funds to the students who have the greatest need for direct educational costs and direct living costs. We think that a plan of this sort would help

ensure students to have access to the kind of school that best suits their own needs.

We think, furthermore, that it would really stop the build-up of loans. We know that our students are carrying a greater loan burden now than they carried several years back.

Let me show you how this works for us. We count heavily on our grads to make gifts to us. If students leave carrying heavy loans, we are finding that it's harder to get them to start making gifts to us if they haven't paid their loans back, and there's a kind of, I wouldn't say an anger about it, but there's a kind of edginess about it. They say, "Well, I'll make a gift to you when I get my loan paid off." Our students pay off loans, and we watch that.

So we think that this plan, which would have a maximum of $2,100 for the direct costs and $2,100 maximum for living costs, according to the greatest need, would be a plan that would help students choose and would put a better footing under the Pell Grant Program.

Mr. Chairman, there are many other things that I could say to you, but there is one final word. We think that this plan would not change markedly the way Pell funds have been assigned to the various sectors in the past.

I have a number of charts here, and if you would simply refer your staff to those charts, I think you would see—the last chart, chart 4—you would see what the current law does in terms of public 2-years, public 4-years, independent schools, and others, and then what the NAICU plan calls for in each case. We simply say that we would not be basically changing the way Pell funds have been going to the private sector, public sector, 2-year public, and so on.

We think, further, it would address the neediest students and would also help ensure the choice that students need.

Mr. Chairman, there are many things more I could say. This is sort of the way we do it out in the hinterland. I'd be very happy to respond to any questions you might have.

Thank you.

[The prepared statement of W. Richard Stephens follows:]

PREPARED STATEMENT OF W. RICHARD STEPHENS, PRESIDENT, GREENVILLE COLLEGE, ON BEHALF OF THE NATIONAL ASSOCIATION OF INDEPENDENT COLLEGES AND UNIVERSITIES AND THE ASSOCIATION OF CATHOLIC COLLEGES AND UNIVERSITIES, ASSOCIATION OF JESUIT COLLEGES AND UNIVERSITIES, ASSOCIATION OF PRESBYTERIAN COLLEGES AND UNIVERSITIES, COUNCIL OF INDEPENDENT COLLEGES, AND THE NATIONAL ASSOCIATION OF SCHOOLS AND COLLEGES OF THE UNITED METHODIST CHURCH

Mr. Chairman and members of the Subcommittee on Postsecondary Education, my name is Richard Stephens. I am President of Greenville College in Greenville, Illinois, a four year, private, church-related liberal arts college in rural southern Illinois. The College, the largest single employer in Greenville, has been operating in the same location for 94 years. The enrollment, which is presently at 650, has declined by approximately 150 students in the last five years. These losses have been the result of significant changes in federal student aid policies and the decline in the number of high school graduates. The College has now stabilized its enrollment after having dramatically increased the amount of institutional financial aid raised from donors. The last seven years have seen the College balance each annual operating budget. Recently the Board of Trustees launched a campaign for endowment funds to support financial aid to students. An innovative ten-year-old agreement with a regional community college has allowed more than 900 local students to attend Greenville at community college tuition rates. The College has an admirable

record of success among its graduates, many of whom are serving in public employment throughout the United States and in many foreign countries. Its largest programs are teacher education, business management, and pre-professional programs such as pre-medicine.

Students have been drawn mainly from the small towns and rural areas of the Midwest. Over 85% of the students receive some form of financial aid. Average family income is approximately $22,000. The College has been having some success in attracting greater numbers of students from urban settings—especially minority students. Overall, however, recent changes in financial aid policies are resulting in an alarming decline in the numbers of minorities and low-income persons applying to the College.

I am pleased to appear before you today to present the views of the NAICU membership on several policy issues you are considering for the Pell Grant program. We submitted our recommendations for reauthorization of the Higher Education Act to the Chairman and to the Ranking Republican Member on April 30, and I have attached to my testimony a summary of those recommendations. And, I would note that we generally support the testimony of the American Council on Education on those matters described as consensus positions.

But before I discuss our recommendations and our reasons for making them, I'd like to give you some background on the National Association of Independent Colleges and Universities, and provide you a snapshot view of student financial assistance as it existed on our campuses during the 1983-84 academic year, the last year for which complete data are available.

NAICU is an organization of 850 independent, nonprofit colleges and universities, and state, regional, or other special-purpose organizations, based here in Washington, D.C. to provide a unified national voice for independent higher education. Last year, independent institutions enrolled 2.6 million students (approximately 21 percent of all students enrolled in higher educational institutions), and the 1984-85 price of education—the amount actually charged to students at registration—averaged $9,022, including an average tuition and fee charge of $5,016.

What we charge our students is a more accurate reflection of the actual cost of the education offered than is the case in other types of higher education because our institutions do not receive the direct operating subsidies provided by state taxpayers to reduce the tuition charged to public-sector students. Less than one-fifth of revenues for independent colleges and universities comes from governmental—federal, state, or local—funds, while income from tuition, fees, and services (bookstores, campus housing, etc.) extended to students contributes more than 63 cents of every dollar of operating revenue at our institutions. And from that operating revenue, our colleges and universities provided almost $2 billion in 1983-84 directly to their students in the form of institutional student financial aid! And, Mr. Chairman, I would also note a fact that relates to the quality of our enterprise: although we enroll only 21 percent of all college students, we award 33 percent of all bachelor's degrees, 39 percent of all master's degrees, 37 percent of doctoral degrees, and 59 percent of all first professional degrees.

Our research arm, the National Institute of Independent Colleges and Universities, conducted its fourth annual student aid survey for academic year 1983-84 of 5,416 actual student records using a stratified random sample of all independent institutions. NIICU found that 1.4 million students in the independent colleges and universities (63 percent of all students in the independent sector) received student assistance from the federal government, their state government, their institution, or some other private source. Eighty-four percent of these aid recipients (1.2 million students)—almost half of all independent sector students—received some form of federal aid. Seventy percent of all federal recipients were dependent on their families for support, receiving an average of $1,920 per student toward their college expenses, or 22 percent of the average price of education. More than 80 percent of our recipients were between the ages of 18 to 24. Ninety-six percent of our dependent federal aid recipients attend for the full academic year, and sixty-one percent live on our campuses. And, finally, the average family income of all recipients of federal assistance was $22,100, and if we exclude GSL-only recipients, the average family income was $17,600.

What we found in terms of the type of assistance they received was most disturbing, especially when compared to the surveys NIICU conducted in 1978-79, 1979-80, and 1981-82. The participation rate of our needy recipients in the Pell Grant program declined from the high water mark of 66 percent in 1979-80 to 39 percent in 1983-84, and average Pell Grant awards increased only slightly from $974 in 1979 to $1,164 in 1983. Similarly, for the Supplemental Educational Opportunity Grants program (the other major federal need-based grant program), the percentage of recipi-

ents/average award declined from 31 percent/$694 in 1979-80 to 20 percent/$650 by 1983-84 academic year.

Low-interest National Direct Student Loans declined dramatically, and work-study opportunities, together with state need-based aid, declined slightly over the same period. Even with institutions struggling to fill the gap by increasing their own need-based student aid, the results of the reduced grant participation rates and average awards, and the declines in other programs, were predictable—more needy students in independent colleges and universities found themselves increasingly dependent on larger Guaranteed Student Loans to help finance their educations.

In that four-year period from fall 1979 to fall 1983, the percentage of dependent recipients borrowing a GSL had increased dramatically—from 15 percent to 57 percent, with the average loan also increasing from $1,787 to $2,249! More distressing was the fact that the lowest-income students (AGI of $6,000 or less) were as heavily dependent on GSL to meet their educational costs, with 57 percent from this lowest-income category borrowing an average of $2,259, as compared with 15 percent in 1979 borrowing an average of $1,400.

It it that factual background of diminished availability of grant assistance and greater reliance on loans for students attending or aspiring to attend independent colleges and universities, that caused our membership to adopt policy recommendations for reauthorization of the Higher Education Act designed to redress this imbalance between grant and loan support for needy students in general, and for the lowest-income students in particular.

That is why we developed a proposal to restructure the Pell Grant program to target the support on low-income students and insert price sensitivity into the basic structure of the program. *That is why* we recommend a revamped SEOG program that targets funding on students with the greatest need for funds, and ties appropriations for the two major federal grant programs more closely toegether. And *that is why* we proposed that the GSL program be restructured to limit loans to need, with slightly increased maximum loan amounts for established students, with opportunities for students to consolidate their loans when they enter repayment under income-related payment schemes, and with loan amounts not reduced by arbitrary origination charges.

Let me now turn to the specifics of our recommendations for the Pell Grant program that is the subject of today's hearing.

Mr. Chairman, the Pell Grant program has been of major importance to needy students attending independent colleges and universities since its creation in 1972. Then, it was called the Basic Educational Opportunity Grants program, and it was designed to serve as a foundation federal program onto which all other aid was to be added. It was instituted as the primary piece of a new federal strategy of focusing federal support on students rather than institutions. That new federal strategy was built upon the commitment made by Congress in the Higher Education Act of 1965 to equalize higher educational opportunity. In the first year of the program (1973-74), almost 50,000 independent sector students received $13.1 million in Basic Grants. By comparison, in 1983-84, more than half a million of our students received Pell Grants amounting to $675 million.

But the hidden fact behind that seemingly large increase is the massive decline in our students' participation rates cited on page four, and the similar decline in Pell Grant purchasing power. For example, in 1979, when this subcommittee last considered legislation to reauthorize the Higher Education Act, the average cost of a small, private liberal arts college was $5,400, and the lowest-income student could receive $1,800, or one-third of his total cost, through the Pell Grant program. This past academic year, the average cost of the same institution was $9,400, and the maximum Pell Grant was $1,900, or less than one-fifth of the average student expenses. Over that same period of time, both the percentage of total Pell Grant funds *and* the actual dollar amount of Pell Grant funds that students brought to independent colleges and universities declined from 30.1 percent or $709 million in 1979 to 24.3 percent or $675 million in 1983-84.

Mr. Chairman, we remain committed to the original goal of the 1965 Act of equalizing higher educational opportunity for all students with need to have access to all types of higher education. And we remain committed to the strategy established in the original basic or Pell Grant legislation of providing a foundation grant upon which the remainder of student aid would be added. That equal opportunity goal and the foundation Pell Grant strategy have been refined and strengthened through the subsequent reauthorizations.

But, you have now heard testimony during your hearings that both the goal and the strategy may not be working as planned. Witness after witness has testified that student debt burden is a significant problem, that low-income students are being

forced into taking out large loans, with resultant defaults, and that grant and loan assistance is seriously out of balance. You have heard that Hispanic students are both underrepresented in higher education and underserved by the student aid system. You have heard that growing numbers of Black students are being forced into community colleges and proprietary institutions and are not moving on to pursue bachelor's or graduate degrees. And you have heard that low- and middle-income students aspiring to higher education, despite their heavy debt burden, are still left short of fulfilling their needs.

The clear fact is that the "foundation" promised by Pell Grants has shifted. But for the "shoring up" provided by independent institutions—almost $2 billion in institutional student aid provided directly by our colleges—we would already be experiencing a shift back to an economically-segregated, stratified, higher educational system where only the wealthy could afford independent higher education.

NAICU PROPOSAL

We therefore urge you to restructure the Pell Grant program to assure access for all eligible students to all types of higher education. We believe the problem is too deep and too serious to be addressed by simply patching up. Increasing one or two or three individual parts of the award formula would be an insufficient response to the problem.

Our proposal is offered as a compromise proposal that would (1) insert price sensitivity for low- and middle-income students desiring to attend higher-tuition colleges and universities; (2) assure living expense allowances for the lowest-income (up to 150 percent of the poverty level) students who pursue their education at lower-priced institutions and are more dependent on living expense support; and (3) keep the total cost of the program within the realm of reasonable appropriations growth.

It would provide a true Pell Grant foundation upon which to build the other federal, state, institutional, and private student aid programs by basing the award on a two-part calculation: (1) half of tuition, mandatory fee, and book expenses for all eligible low- and middle-income students (up to a $2,100 maximum), *plus* (2) a substantial allowance (up to $2,100) for all low-income students to help them meet their living expenses in all types of colleges and universities. This mechanism would award substantial grant dollars to low-income students for their living expenses and for up to half of their tuition, fees, and books, and it would also allow middle-income student participation for up to half of the "price" charged to them.

Mr. Chairman, I call your attention to charts numbered 1 and 2 attached to my statement that show how this proposal would benefit students from family incomes of $10,000 or less. As compared with the current program, our proposal would substantially increase both the percentage and the amount of Pell Grant dollars going to persons from families with incomes of $15,000 or less.

Our proposal assumes that discretionary incomes of all types of students, dependent and independent, would be taxed at the same rates. We also propose to set a standard living allowance for all recipients not living at home, whether they live on or off campus. Currently, students living in campus dormitories include the actual room and board charges (expected to average $2,800 this fall) in their award calculations, while the student living off campus (but not at home) receives an allowance of $1,600. Students living with their parents would continue to receive $1,100 in living allowances, as under current law. Our goal is to provide the lowest-income students with a substantial Pell Grant, and to allow the needy student with a family AGI of $30,000 to receive the minimum award of $200. Both the tuition and living allowance portions of the grant would have the same maximum of $2,100 and would advance at the same pace through the period of reauthorization.

It is important to note that relatively little change would occur in the distribution of Pell Grants that students would bring to public or independent colleges and universities, as evidenced by chart #4 attached to my testimony. And, the proposal would effectively remove the stress and strain that have divided the higher education community over the "half-cost" issue, and caused consternation in the Congress as to the impact of increases or reductions in appropriations or technical changes to the law on higher education competition.

Mr. Chairman, let me take just a moment to put that issue in context. In creating the Pell Grant program in 1972, Congress added a legislated restriction that was well intentioned, but has become a continuing source of controversy through subsequent reauthorizations in 1976, 1978, and 1980. The "half-cost" restriction was a limitation on the amount of support any student could receive from this single program. No award was to exceed 50 percent of the cost-of-education or the statutory maximum, whichever was lower. (Cost of education was defined as tuition and fees,

room and board, and a standard allowance for books and supplies. For students living off campus, a standard allowance was set by regulation to cover room, board, transportation, and other living-related expenses.)

This restriction was enacted for two purposes: (1) to ensure that all students would continue to be expected to pay for a portion of their higher educational expenses, and (2) to ensure that political support for other programs would not erode because needy students would have most or all of their expenses met by a basic grant.

The result of the limitation was that low- and middle-income students tended to use their basic grants, now Pell Grants, to meet their living expenses at institutions where tuitions are low, while for students at higher-priced colleges and universities the living expenses became almost an irrelevancy because their Pell Grant eligibility quickly was consumed by tuition and related charges. Thus, lower-priced institutions have tended to advocate increases or outright removal of the "half-cost" limitation and the living allowance limitation used to compute Pell Grants, while representatives of higher-priced colleges and universities have tended to urge retaining the limitation while increasing the maximum award.

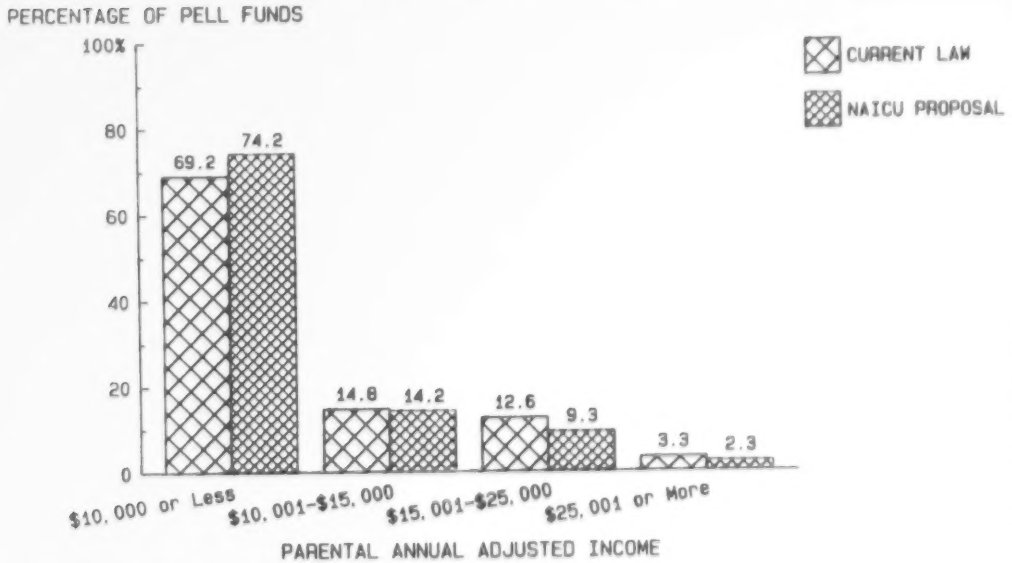
The 1976 and 1978 amendments to the Higher Education Act retained the "half-cost" restriction. In the Education Amendments of 1980, however, a change was authorized in the limitation. In large part through your leadership, Mr. Chairman, that legislation allowed the percentage of cost limitation to increase in a staged manner, but only as a result of increases in the maximum Pell Grant award *and* three other need-based student aid programs—Supplemental Educational Opportunity Grants, College Work Study, and National Direct Student Loans—known as the campus-based programs. Planned increases in the appropriations for the campus-based programs have not gone up as intended, while the maximum award has increased by just over ten percent, and the "half-cost" limitation has increased to 60 percent of cost. Other changes have occurred in the cost calculation relating to commuter living expenses. Couple all of that together, and it is not difficult to see why our Pell Grant losses are so severe.

We believe we have developed a viable proposal to re-establish the foundation concept to the Pell Grant program. It does not shift funds among different types of institutions; it focuses limited grant dollars where they belong—on those with the least; it targets federal grants aid in a cost-effective manner, both from the point of view of the federal budget and from the point of view of the student (see chart #3); and it makes sense from the point of view of national public policy.

Finally, Mr. Chairman, we believe that the "gossip in the street," where much of the student aid information is passed among students, can more easily carry a message that says the federal Pell Grant program *will* pay up to half of your tuition, and, if you're poor, it *will* pay a large part of your living expenses.

I thank you for allowing me the opportunity to present these remarks, and look forward to any questions you may have.

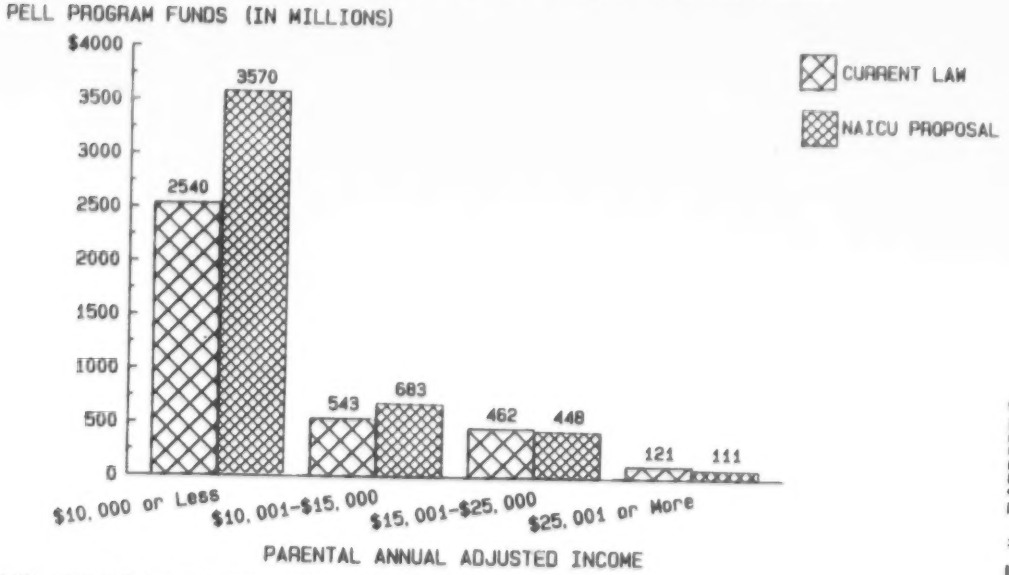
NAICU PROPOSAL TARGETS FUNDS
ON LOW INCOME STUDENTS (LESS THAN $10,000)
PERCENTAGE DISTRIBUTION OF PELL PROGRAM FUNDS



DATA PROVIDED BY AMERICAN COUNCIL ON EDUCATION
WASHINGTON, D.C.

CHART #1

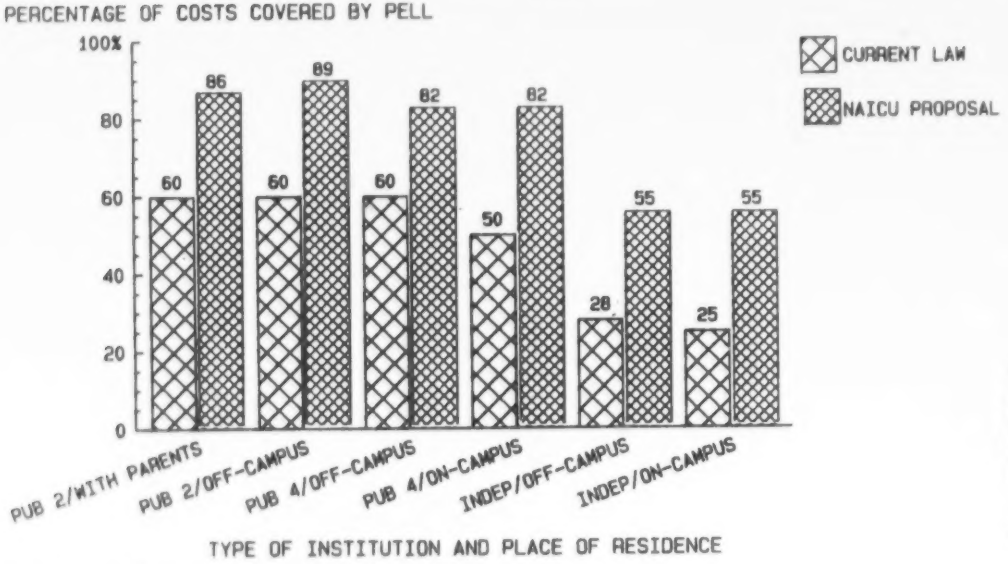
NAICU PROPOSAL TARGETS FUNDS
ON LOW INCOME STUDENTS
DISTRIBUTION OF TOTAL PELL PROGRAM FUNDS



DATA PROVIDED BY AMERICAN COUNCIL ON EDUCATION
WASHINGTON, D.C.

CHART #2

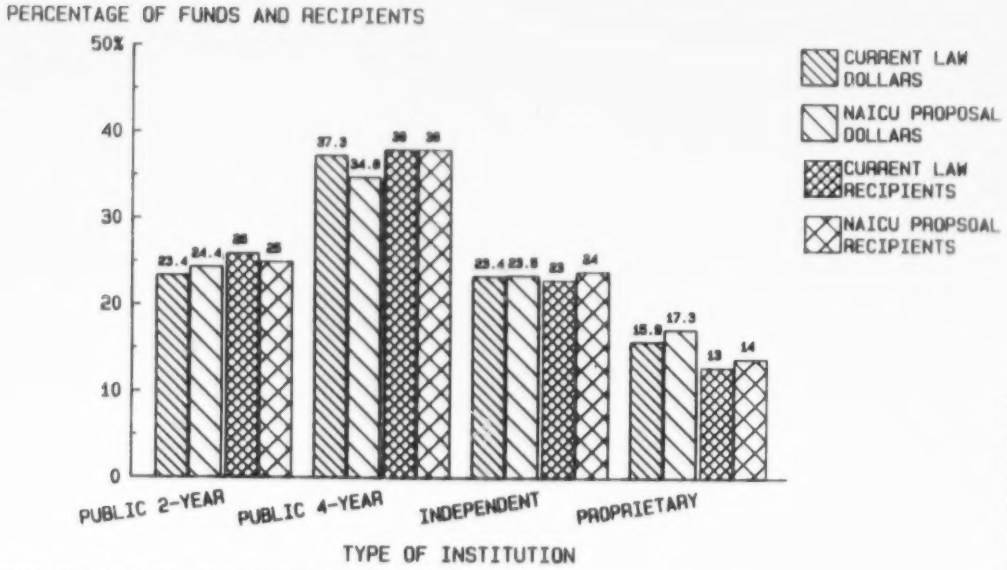
NAICU PROPOSAL MEETS GREATER PERCENTAGE OF COSTS FOR LOW INCOME STUDENTS (LESS THAN $10,000)



DATA PROVIDED BY AMERICAN COUNCIL ON EDUCATION
WASHINGTON, D.C.

CHART #3

NAICU PROPOSAL MAINTAINS SECTOR BALANCE
DISTRIBUTION OF DOLLARS AND RECIPIENTS



(28) DATA PROVIDED BY AMERICAN COUNCIL ON EDUCATION
WASHINGTON, D.C.

CHART #4

77

TRENDS IN PELL GRANT FUNDING—ACADEMIC YEARS 1979–80 TO 1983–84

[Dollar amounts in millions]

	Academic year—									
	1979–80		1980–81		1981–82		1982–83		1983–84	
	Amount	Percent of total	Amount	Percent of total	Amount	Percent of total	Amount	Percent of total	Amount	Percent of total
Public	$1,421	60.2	$1,426	59.7	$1,367	59.4	$1,376	56.8	1,573	56.6
2-year	411	17.4	445	18.6	431	18.7	438	18.1	520	18.7
4-year	1,010	42.8	981	41.1	936	40.7	938	38.7	1,053	37.9
Independent	709	30.1	687	28.8	625	27.2	644	26.6	675	24.3
Proprietary	229	9.7	276	11.6	311	13.5	404	16.7	535	19.2
Total	2,358	100.0	2,387	100.0	2,302	100.0	2,425	100.0	2,425	100.0

Source: U.S. Department of Education, Office of Student Financial Assistance from "Institutional Agreement and Authorization Reports"

NAICU Recommendations for Reauthorization of the Higher Education Act

TITLE IV—STUDENT ASSISTANCE

Student grant programs

Continue the existing federal policy goal that every eligible student shall receive aid under the Pell Grants, SEOG, and SSIG programs that, in combination with reasonable parental and student contributions, will be sufficient to meet 75 percent of a student's cost of attendance.

Pell grants

Restructure Pell Grants in order to resolve the long-standing conflict among sectors of higher education over percentage-of-cost limitation-maximum award/funding triggers for other programs by instituting a new Pell Grant formula. The formula would target the program on low-income students and insert price sensitivity into the basic structure of the Pell Grant program, basing eligibility on a two-part formula: (1) half of tuition, mandatory fee, and book expenses for all eligible low- and middle-income students, up to a maximum of $2,100, plus (2) a substantial allowance to cover living expenses for all low-income students, up to a maximum of $2,100. This mechanism would award substantial grant dollars to low-income students for their living expenses plus half of their tuition expenses in order to assure their access to all types of higher educational opportunities, but would limit the participation of middle-income students to just half the "price" charged to them.

The proposal assumes the same taxation rates on discretionary income for dependent and independent students in order to provide substantial grants to low-income students and a $200 minimum award to a student from a typical family of four with one in college and an adjusted family income of $30,000.

Supplemental educational opportunity grants

Reauthorize the SEOG program with a funding authorization of no less than 15 percent of the appropriation for Pell Grants. Target SEOG funding on students with greatest need for funds (defined as those students whose expected family contribution is less than one-half of their total cost-of-education). Maintain institutional "hold harmless" level at amount institution used in academic year 1985–86 (FY 1985 appropriation). Allocate all new funding above the FY 1985 level only to those institutions whose institutional "Fair Share" exceeds their institutional "Conditional Guarantee". Reinstitute institutional matching requirement in program, with matching funds to come from non-federal sources. Drop use of institutionally-provided need-based student grants and awards from formula used to determine institutional need for SEOG.

State student incentive grants

Reauthorize the program and allow states to use up to 50 percent of new allocations, above FY 1985 level, to establish or sustain a 50/50 Federal/State matching work-study program.

College work-study

Reauthorize the program without changing the language that limits CWS to non-profit institutions, without changing the existing reallocation procedures, and without consolidating the program with Cooperative Education. Allocate new funding above the FY 1985 level as in SEOG (see above).

National direct student loans

Reauthorize the program and rename the program for its principal advocate, the late chairman of the House Education and Labor Committee, Representative Carl D. Perkins.

Guaranteed student loans

Reauthorize the program increasing the annual loan limits for those undergraduates who have completed their first two years of study toward a bachelor's degree and for graduate students to $5,000 and $8,000, respectively. Aggregate limits are increased to $20,000 for undergraduates and an additional $25,000 for graduate students. Limit all loans to need remaining after all federal grant, work, and loan benefits, together with all expected parental/student contributions are taken into account. Provide for borrower-requested consolidation of student loans. Repeal the origination fee. Provide for a federally-guaranteed, but not federally-subsidized, "loan at last resort."

PLUS loans

Reauthorize the PLUS loan program making it more attractive to lenders, and therefore a more viable program for borrowers, by allowing consolidation or refinancing of loans, and by allowing secondary markets to adjust payment schedules with the borrower.

Master calendar

Establish a master calendar for the delivery of student aid in order that the student aid system may function smoothly.

Verification

Require verification documentation to be submitted on all federal student aid applications.

TITLE III—INSTITUTIONAL AID

Reauthorize program with three separate parts: Grants to strengthening institutions, grants to Historically Black colleges and universities, and Endowment grants. Alter eligibility criteria to include a wider body of institutions. Expand permissible uses of grant dollars to include recruitment activities and training of administrative staff. Make Cooperative Arrangements a high priority funding area with more lenient restrictions on participation.

TITLE VII—CONSTRUCTION, RECONSTRUCTION, AND RENOVATION OF ACADEMIC FACILITIES

Reauthorize title with emphasis on renovation rather than new construction. Increase funding authorization to reflect the increasingly critical need for assistance in this area. Streamline title by deleting unfunded provisions for loan insurance and interest grants. Delete community college setaside provision so that all types of institutions compete equally on the merits of their applications.

GREENVILLE COLLEGE, OFFICE OF FINANCIAL AID

No. of Students receiving Pell Awards—by income levels.

	1979-80	1983-84	1984-85
0 to $5,999	92	95	83
$6,00 to $11,999	84	43	35
$12,000 to $17,999	94	55	48
$18,000 to $23,999	79	48	34
$24,000 to $29,999	34	22	23
Over $30,000	8	4	8

No. receiving Pell grants with family incomes of under $18,000 declined from *270* in 79–80 to *193* in 83–84 and *166* in 84–85.

No. receiving Pell grants with family incomes between $18,000 and $24,000 declined from *79* in 79–80 to *48* in 83–84, and *44* in 84–85.

Pell funds awarded have declined from $429,500 in 79–80 to $319,500 in 83–84 and $298,500 in 84–85.

Enrollment	Pell amount	Number of awards	Percent received Pell
1979–80			
879 (824 FTE)	$429,526	392	45
796 full time			49
1983–84			
685 (631 FTE)	319,559	270	39
603 full time			45
1984–85			
650 (601 FTE)	298,539	240	37
576 full time			42

COSTS

[Tuition/fees—Room/board]

	Amount	Maximum Pell award	Percent
1979–80	$4,600	$1,800	39
1983–84	6,750	1,800	27
1984–85	7,300	1,900	26

PERCENTAGE INCREASE IN SELECTED CATEGORIES—1975–76 TO 1984–85

	1975–76	1980–81	1984–85	10 yr increase	4 yr percent increase
I. CPI	168.2	269.0	[1] 320.0	90.2	19.0
II. Prices:					
Tuition	$1,930	$3,168	$4,686	143.0	48.0
Room and board	$1,310	$1,720	$2,350	79.0	37.0
Total	$3,240	$4,888	$7,036	117.0	44.0
III. Salaries—Base	$8,350	$11,977	$13,230	58.0	11.0
IV. Institutional scholarships:					
Total awarded	$159,246	$279,113	$437,000	174.0	57.0
Full-time students	749	771	650	13.2	15.7
Average award	$216.61	$362.01	$672.30	210.4	85.7
V. Energy	$78,100	$164,018	$292,700	274.8	78.5
VI. Overall budget	$3,022,557	$4,801,528	$5,030,000	66.4	4.8

[1] Estimate

The amount of GSL loans borrowed has increased significantly, even though the enrollment has decreased: 1979–80, 469,640 (249); 1983–84, 643,995 (290); 1984–85, 610,250 (273).

In 1979–80, 249 students borrowed GSL funds totaling approximately $469,600. Over half (139) were from families with incomes under $24,000, *96* from families with incomes under $18,000.

In 1983–84, 290 students borrowed GSL funds totaling approximately $644,000. Over half (180) were from families with incomes under $24,000, *127* from families with incomes under $18,000.

BEST COPY AVAILABLE

In 1984-85, 273 students borrowed GSL funds totaling approximately $610,000. Over half (150) were from families with incomes under $24,000, *116* from families with incomes under $18,000.

Minority enrollment: 1979-80, 70; 1983-84, 60; 1984-85, 52.

FINANCIAL AID BY TYPE OF AID, 1976–85

	1985	1984	1983	1982	1981	1980	1979	1978	1977	1976
I. Campus based grants										
Greenville College	$437,000	$381,216	$353,000	$351,254	$279,114	$240,183	$237,539	$197,198	$229,790	$159,247
SEOG	170,000	160,425	155,000	161,651	177,300	163,591	167,675	164,964	150,817	154,350
Total	607,000	541,641	508,000	512,905	456,414	403,774	405,214	362,162	380,607	313,597
II. Noncampus based grants										
BEOG	320,000	319,559	275,243	307,075	359,615	429,526	221,750	218,635	215,490	132,389
ISSC	450,000	457,143	402,579	486,941	492,291	541,691	501,345	395,171	509,001	382,300
Other	22,000	25,431	18,000	18,641	13,634	1,500	1,800	2,800	3,500	1,680
Total	792,000	803,133	695,822	812,657	865,540	972,717	724,395	616,606	727,991	516,369
III. Loans										
NDSL	160,000	157,113	152,637	179,610	218,461	215,061	207,406	214,000	143,900	210,025
IL guaranteed	400,000	385,691	500,780	533,637	490,614	298,261	225,774	217,172	122,782	92,450
Other State loan	200,000	211,468	199,220	212,291	188,016	148,796	86,469	75,860	32,963	36,000
2 milers	30,000	42,550	58,050							
Total	790,000	796,822	910,687	925,538	897,091	662,118	519,649	507,032	299,645	338,475
IV. Employment										
Greenville College	220,000	220,000	270,000	254,000	180,806	130,136	103,988	105,653	147,737	67,411
CWSP	92,291	92,291	92,421	92,688	90,500	88,151	83,150	88,717	79,032	46,223
Total	312,291	312,291	367,421	346,688	271,306	218,287	187,138	194,370	226,769	113,664
Grand Total	2,501,291	2,452,887	2,476,930	2,597,788	2,490,351	2,256,896	1,836,396	1,680,170	1,635,012	1,282,105

BEST COPY AVAILABLE

FINANCIAL AID BY SOURCE, 1975–85

Year	Federal					State ISSC	Greenville College			Total Greenville College
	SEOG	BEOG (Pell)	CWSP	NDSL	Total Federal		Scholarship	Employment	2% match	
1975	$94,524	$43,648	$31,012	$94,223	$263,407	$300,636	$115,774	$70,111		$185,885
1976	154,350	132,389	46,223	76,446	409,408	382,300	159,247	67,441		226,688
1977	150,817	215,490	79,032	82,356	527,695	509,001	229,790	147,737		377,527
1978	164,964	218,635	88,717	87,447	559,763	395,171	197,198	105,653		302,851
1979	167,675	221,250	83,150	79,465	551,540	501,345	237,539	103,988		341,527
1980	163,591	429,526	88,151	79,000	760,268	541,691	240,183	130,136		370,319
1981	177,300	359,615	90,500	44,766	672,181	492,291	279,114	180,806		459,920
1982	161,651	307,075	92,688	17,263	578,677	486,941	351,254	254,000		605,254
1983	155,000	275,243	92,421	36,750	559,414	402,579	353,000	270,000	$58,050	681,050
1984	160,425	319,559	92,291	25,656	597,931	457,143	381,216	220,000	42,550	643,766
1985	170,000	320,000	92,291	22,601	604,892	450,000	437,000	220,000	30,000	687,000

Mr. FORD. Mr. Tenzer.

STATEMENT OF MORTON J. TENZER, CHAIRMAN, COMMITTEE ON GOVERNMENT RELATIONS, AMERICAN ASSOCIATION OF UNIVERSITY PROFESSORS, AND PROFESSOR, UNIVERSITY OF CONNECTICUT

Mr. TENZER. Mr. Chairman and members of the subcommittee, I'm Morton Tenzer, and I'm a professor of political science and director of the Institute of Urban Research at the University of Connecticut. I'm here today in my role as chairman of the Government Relations Committee of the American Association of University Professors, which is the Nation's largest and oldest association of faculty members, over 60,000 members on 1,000 different campuses, public and private, ranging from community colleges to leading research universities.

I have submitted a prepared statement which I will summarize briefly, and I want to share with you and members of the subcommittee some of my own experiences with Pell grants as a faculty member and a former college financial aid officer.

The AAUP statement which we have submitted reflects the increasing concern of the faculty about the growing indebtedness of students. At the national level, we are informed by the Department of Education that students have accumulated a total debt burden exceeding $50 billion. We hope that through the reauthorization process it will be possible to redress the balance between grants and loans.

Continued large increases annually for guaranteed student loans while Pell grants continue to fall behind the schedule incorporated in the Higher Education Amendments of 1980 endanger not only the level of funding for Pell grants, the ability of students to attend college and university, but also the other campus-based programs and perhaps all of higher education programs.

In particular, the increases in the guaranteed student loan programs put at risk the principle and policy of equal educational opportunity which lies at the foundation of the Higher Education Act of 1965.

My purpose today is to urge the members of the subcommittee to provide a remedy to the escalating indebtedness of students and the danger to equal educational opportunity. Our proposal is to consolidate Pell grants and supplemental grants into a larger Pell grant with a maximum award of either $5,000 or 75 percent of the cost of attendance, whichever is less.

In addition, we believe that graduate students, at least for the first 2 years of graduate school, should be eligible for Pell grants. But, more importantly, we recommend that Pell grants be made a true entitlement comparable to guaranteed student loans because we want to end the continual anxiety and turmoil on the campuses and between the Department of Education and our colleges and universities about the annual funding of the Pell grants.

We have not determined the precise income level for which students would be entitled to a Pell grant but would suggest either a family income maximum of $25,000 or the median family income in the United States.

Let me say that I personally, in my own office as a faculty member, have had students literally crying in my office because of the debt burden that they are accumulating while metriculating in college and university. It becomes exceedingly uncomfortable and difficult to deal with students intellectually about their academic programs when their major concern is whether or not they are going to be able to stay in school the next semester because of the lack of financial assistance.

At my own campus, although there are about some 1,600 students who receive Pell grants worth over $2 million, and an additional 4,000 students who receive other sorts of financial assistance from the other federally funded programs and from State and university funds, all students receive $450 less than their documented estimated need because of a shortfall of funding for financial aid. We want to overcome these shortfalls. We have noted with dismay the decreased number of students, and particularly minority students, receiving Pell grants and the decline in the ability of the poorest students to attend colleges and universities.

Faculty support for Pell grants is derived from two sources. One is the traditional desire of teachers to have highly qualified students in their classrooms, irrespective of the students' financial status. Presidents of the United States, Members of Congress, a series of independent commissions have said repeatedly that no student should be denied a college education solely for financial reason. However, in recent years, the changes that President Stephens indicated and the lack of increase in Pell grants in respect to the Consumer Price Index, a decreasing number of the poorer students are attending colleges and universities.

A second source of support stems from our experience with the entitlements that were called the GI bill available to World War II veterans. This was one of the greatest turnarounds in the history of American higher education. Many of the faculty were themselves beneficiaries of the GI bill, and some of my older colleagues taught students under that entitlement program, and we have advocated since the 1950s an entitlement program for low-income students comparable to the GI bill, and we endorsed in 1972 the basic educational opportunity grants, and our support for Pell grants subsequently has not faltered but, rather, has grown stronger.

Today we believe that a larger Pell grant based on a true entitlement will move our Nation closer to the goal of equal educational opportunity.

Our prepared statement provides a current profile of enrolments and a summary of enrolments tell us about recent progress toward equal educational opportunity in higher education.

We believe that progress appears to be stalled as a result of the financial difficulties of the last 4 or 5 years, and, in fact, we are slipping backwards in some respects.

We also refer to the larger issue of Federal support as part of a national policy of investment in human capital. We contend that higher education is a large, dynamic, and yet fragile enterprise that plays the primary role in producing the human capital of our society.

At the center of this discussion of human capital is the future of the historic partnership between Government and higher educa-

tion. That partnership, we believe, requires strengthening at this time, not weakening, and we want to urge the committee to permit higher education to increase its contribution to the growth of human capital in our society.

Thank you.

[The prepared statement of Morton J. Tenzer follows:]

PREPARED STATEMENT OF PROF. MORTON J. TENZER, UNIVERSITY OF CONNECTICUT, ON BEHALF OF THE AMERICAN ASSOCIATION OF UNIVERSITY PROFESSORS

Mr. Chairman and Members of the Subcommittee, I am Morton J. Tenzer, professor of political science and director of the Institute of Urban Research at the University of Connecticut. I appear here today as chairman of the Committee on Government Relations of the American Association of University Professors, the nation's largest and oldest professional association of college and university faculty members.

In a letter to the chairman and Mr. Coleman dated April 29, 1985, which accompanied a series of recommendations for reauthorization of the Higher Education Act of 1965, the American Association of University Professors expressed on behalf of faculty grave concern over the growing indebtedness of students. In our leter we noted that students have taken on an enormous burden of personal debt estimated to be well over $50 billion. We believe it is necessary to redress the balance between loans and grants in the federal student assistance programs. We are concerned that continued sharp increases in student indebtedness under the Guaranteed Student Loan program will endanger the rest of the federal student assistance programs and put at risk the principle of equal educational opportunity. From our vantage point on the campuses the situation is urgent. As a partial remedy, we have recommended the consolidation of the Pell Grants and the Supplemental Educational Opportunity Grants into a larger Pell Grant that would provide a $5,000 maximum award or 75% of the costs of attendance, whichever is less. But perhaps more significantly we recommend that the Pell Grant become a true legal entitlement comparable to Guaranteed Student Loans. Changes of this nature, we believe, would demonstrate a stronger national commitment to equal educational opportunity.

We focus our attention on Pell Grants because they represent society's commitment to expand educational opportunities to the disadvantaged, the poor, the newly arrived, and those who have suffered discrimination. They symbolize the principles of hope, of progress, and the enduring partnership between one generation and the next. We supported their inclusion in the Education Amendments of 1972. We have argued for their expansion during the intervening thirteen years, and our support remains strong today. We regard their long run impact as comparable to that of the Morrill Act of 1862, the G.I. Bill, and the National Defense Education Act. As teachers we are concerned about not only those students already enrolled in our colleges and universities but also those qualified, perhaps talented, individuals who do not have adequate personal or family resources to permit them to begin a college education. Pell Grants are designed to give encouragement to this latter group and to provide an educational opportunity that will enrich both the individual and society.

In 1972 we regarded the Basic Educational Opportunity Grants (later renamed Pell Grants) as a entitlement comparable to both the G.I. Bill and the Guaranteed Student Loans. Our perception that they are an entitlement has been a widely held perception. In a brochure published by the United States Office of Education in 1978 about the five federal student assistance programs, Basic Educational Opportunity Grants were described in the following manner:

"The Basic Grant Program is different from the other programs described in this booklet. Basic Grants is an *Entitlement* program. This 'entitlement' feature represents the major difference between the Basic Grant Program and other USOE financial aid programs. It means that all students who are eligible will receive Basic Grant awards."

And as recently as June 10, 1985, Senator Slade Gorton (R-Washington), in introducing S. 1269, a bill related to Pell Grants and College Work Study, characterized Pell Grants as "an entitlement program." (*Congressional Record*, June 10, 1985, S7859)

We recognize that under the current law Pell Grants are a limited entitlement, subject to annual budgetary limitation on funds, the restriction imposed by a family contribution schedule, and the limitation on the size of an award calculated as a percentage of the cost of attendence. We understand some of the rationale that underlies these limitations. But we believe that in order to discourage the enormous

debts that will be required of low-income students over the next several years and to encourage a major step forward in implementing equal educational opportunity it is necessary now to make Pell Grants a true legal entitlement for all students whose personal or family income is less than an amount determined by Congress. We have not calculated the cost of Pell Grants under our proposal. Whatever increase in funding this would require should be partially offset by the elimination of Supplemental Grants and the lower costs to the federal government as a result of smaller Guaranteed Student Loans. What a new, larger, consolidated Pell Grant offers is the potential of increasing access for more students and providing a wider choice of institutions. What it tells all of us is that this nation is committed to a larger investment in human capital.

Two aspects of the current situation in higher education require closer scrutiny. One involves the nature of current enrollments and how well they reflect the policy of equal educational opportunity. The second involves federal support of higher education as part of a national policy of investment in human capital. We will not belabor either point but rather express both optimism and anxiety about each.

We are optimistic about enrollment despite repeated predictions throughout the 1970s of impending disasters as the 18-24 age cohort declines. Enrollments have remained steady in recent years despite reductions in federal student aid programs and a sharp decline in the national economy in the early 1980s. The recent study by the National Institute of Education, entitled *Involvement in Learning*, points out that three out of five high school graduates now enroll in college, more than half of all undergraduates are women, one out of every six is a member of a minority group, two out of every five are over the age of 25, and fewer than three in five are attending college full time. Enrollments have remained steady largely because of increases in older students, part-time students, and foreign students. The surge of minority students came in the 1970s and now represents a larger percentage of total enrollments. But it does not appear to be growing. And the percentage of college-bound Black students appears to be declining.

We are concerned about the one out of eight highly able high school seniors who chooses not to attend college and the fact that only 50% of the students who start college with the intent of obtaining a bachelor's degree fulfill their goal. We have made substantial progress since 1972 towards the goal of equal educational opportunity, but progress appears to be stalled and perhaps even slipping slightly backwards. That is why we believe that the new, larger, consolidated Pell Grant may serve as the instrument for moving our society forward again towards the goal of equal educational opportunity. None of the obstacles will be overcome easily, but the challenges of providing educational opportunities to a new generation of young Americans must be met.

The second aspect of the current situation involves federal support of higher education as a part of a national policy of investment in human capital. In a recent report to the Seventy-first Annual Meeting of the American Association of University Professors, our Committee on Government Relations recognized the large, dynamic, and fragile nature of the academic enterprise in the United States. Higher education, we noted, is a major industry with $70 billion of outlays, an amount comparable to the automobile industry or communications industry. It is a dynamic industry which plays a significant role in personal and family decisions and finances, in the determination of career opportunities, in the creation of new industries, and the development of a skilled work force. Indeed, we said, "Higher education reflects a recurring national investment in human capital and it remains one of our best bellwethers of the nation's commitment to social and intelliectual progress." But higher education is also a fragile industry subject to the swings of the economic pendulum, the annual federal appropriations cycle, and a series of both public and private factors ranging from tax policies to the national perception of quality in higher education. Within this major industry, the federal role remains as significant today as it was in earlier years. Not only do federal funds influence student enrollments, but also they influence basic research programs underway at colleges and universities. From the days of the Land Ordinance of 1785 to the present, the historic partnership between government and higher education has encouraged generous public and private funding of higher education and has contributed to the growth and success of American higher education. The symbol of the growth and success lies beyond the buildings on our campuses. It exists in the graduates of higher education institutions who have contributed to the enrichment of American society.

In recent years there has been a weakening of that partnership. We appreciate the longstanding support of the members of this Subcommittee in understanding how important that partnership is to the development of a national resource of human capital. It is one of the critical resources of our nation and its primary

92

source is the 3,300 colleges and universities. We believe that strengthening access to higher education and encouraging a wider choice of institutional offerings through Pell Grants will permit us to continue to contribute to the reservoir of human capital.

Thank you for the opportunity to appear before you today, and I welcome your questions and comments.

AMERICAN ASSOCIATION OF UNIVERSITY PROFESSORS,
Washington, DC, April 29, 1985.

Hon. WILLIAM D. FORD,
Chairman, House Education and Labor Subcommittee on Postsecondary Education, House of Representatives, Washington, DC.

Hon. E. THOMAS COLEMAN,
House Education and Labor Subcommittee on Postsecondary Education, House of Representatives, Washington, DC.

DEAR REPRESENTATIVES FORD AND COLEMAN: Pursuant to your letter of December 28, 1984, we wish to present our recommendations concerning the reauthorization of the Higher Education Act of 1965, which is scheduled to expire during the 99th Congress. We appreciate your kind invitation to present our recommendations, and we shall welcome the opportunity to participate in the Subcommittee's hearings.

As our Task Force on Reauthorization of the Higher Education Act and our Committee on Government Relations reviewed the prospects of the next five years, we concluded that there are at least four overriding concerns that require attention during the current discussion of reauthorization.

First, we believe it is necessary to address a series of faculty-related issues. American higher education is confronted with a serious shortage of faculty within the next decade. A declining percentage of current graduate students in a broad range of disciplines is committed to pursuing a career in college teaching. Steady-state enrollments over the past several years have adversely affected graduate students seeking positions in college teaching and discouraged others from considering a teaching career. For current faculty, we note that various titles of the Higher Education Act refer to faculty development programs. However, few are funded and almost none is directed towards assisting new faculty or encouraging mid-career renewal of current faculty. We have recommended a program of incentives for graduate students, new faculty, and current faculty under a new Part G of Title IX.

Second, as faculty concerned about the growing indebtedness of students, we believe it is necessary to redress the balance between loans and grants in the federal student assistance programs. Students have taken on an enormous burden of debt, estimated at well over $50 billion, as Pell Grants and Supplemental Educational Opportunity Grants have failed to increase in accordance with the schedule enacted in 1980. While students will continue to require loans, we believe the two grant programs should be consolidated and Pell Grants should become an entitlement comparable to Guaranteed Student Loans. A stronger and consolidated Pell Grant would reflect a commitment to invest in higher education as a significant national priority and would further encourage equal educational opportunity. We have made our recommendation under Title IV.

Third, we believe it is necessary to focus on the financial health of higher education institutions. Within recent years they hve been confronted with extraordinary long term financial problems that affect the long term quality of their academic programs. They have neither the reservoir of resources to meet the immediate and continuing demands upon them nor sufficient resources to plan for the decade ahead. They require new and renovated facilities and the products of the new technologies. They need to maintain tuitions at an equitable level and to expand their teaching resources. To provide such resources, we recommend expansion of a well established principle and program—endowment grants--among the federal programs of support for higher education. Endowments based on federal land grants for colleges were first utilized in the 1780s, and they have been part of federal programs for higher education throughout our entire national history. We believe that endowment grants to a broader spectrum of institutions, although not to those whose endowments are already well established, would serve to assist the specific types of institutions provided for in the revised Title III but also those institutions which educate the majority of students in America. Our recommendation for the latter institutions appears in a revised Title XI.

Fourth, we believe it is necessary to focus on those programs which will play a major role in improving the quality of higher education over the next several years.

BEST COPY AVAILABLE

We refer specifically to libraries (Title II), which are undergoing a massive transformation as a result of new technologies. We refer to teacher training programs (Title V), which will require substantial assistance because of impending increased enrollments in order to meet the current and projected shortage of teachers in the elementary and secondary schools. We refer to international and foreign language studies (Title VI), which reflect both critical national interests and the intense drive for international exchange and study. At the one end, TRIO programs (Title IV) provide the potential means to a quality education for disadvantaged students, while at the other end the Fund for the Improvement of Postsecondary Education (Title X) encourages the study and creation of programs designed to strengthen the quality of education for all students. Our goal must be excellence in higher education, and one of the primary means of support in moving towards that goal is the historic partnership, now made stronger, between education and government.

We shall appreciate the opportunity to discuss these and other related issues at the hearings sponsored by the Subcommittee.

Sincerely,

ALFRED D. SUMBERG,
Associate General Secretary.

Mr. FORD. Thank you.

I don't enjoy the role of being the devil's advocate, but we're living in, I guess it's not too strong to say, a hostile environment for new funds.

Mr. Tenzer, your proposal is that you fold the SEOG money into the pot and use the Pell formula to distribute it all. That picks up about $400 million and brings the Pell up to about $4 billion.

Have you made any attempt to cost out what it would take to fund at $5,000 and 75 percent?

Mr. TENZER. No, for several reasons. One is, we also believe that if this were made available, there would be a reduced demand for guaranteed student loans, which now students are getting $1,900, which is the maximum they can get.

At many of our institutions, it's just the beginning of what they need to attend, such as President Stephens' institution and many private institutions, some of which have sent out material that indicates a total cost of attendance for next year of $18,000 a year, so that all those students getting Pell grants have to get NDSL's and guaranteed student loans and so on.

We think, if you go up to that $5,000 or 75 percent, you will reduce the amount of money for guaranteed student loans. We don't know how much that will be. We also think that, since the same formula for eligibility will be applied, not all of the students will be getting the $5,000. Some of them that get $500 now would continue to get $500 on the basis of their family contribution schedules. Some would get $1,500 or $1,400.

So we are not sure, if you would make this change, how the various other elements in the aid packages would fit into it. What we do feel very strongly is that something must be done to stop this staggering burden of indebtedness.

I teach in a graduate program, a 2-year master's program. We have students who have come out of 4 years of undergraduate school with $10,000 in debt. Our program takes 2 years. They can borrow up to $5,000 a year from guaranteed student loans. They graduate $20,000 in debt.

This is a program that helps train people for careers in the public service, masters of public administration. Beginning jobs, our students are lucky if they get $14,000, $15,000, or $16,000 a year. There is virtually no way they can reasonably repay $20,000

of debt, and, as we know from other testimony, sometimes they wind up driving a taxi rather than taking a job which they have spent 6 years studying for, because it's the only way they can pay their student debts back.

We've got to reduce that debt burden. We have to recognize that the $1,400 that the Pell grants were started up with in 1972 would be $3,400 on the Consumer Price Index now anyway. We have to recognize that higher education costs have escalated more than the general cost in the community and in the Consumer Price Index and that we have been turning students away from higher education in recent years, as the numbers indicate for the poorest and minority students.

So we think that the Pell grants are the key to the solution and that Congress should recognize as a goal and objective that this is the way to fund aid to higher education.

We are blessed internally among our faculty members with not having divisions at least among the faculty between public and private. Those of us, like myself, at a public institution are as interested in keeping the private institutions healthy. Our colleagues on our Committee on Government Relations from institutions like the University of Pennslyvania and others, which are private, are interested in the strength of the public institutions. We all feel that those Pell grants are a key to avoiding this incredible burden of cost.

Mr. FORD. I can't disagree with anything you've said. I don't know how I can get a bill signed by the President that makes that kind of commitment.

Mr. TENZER. Maybe you can arrange it so that it wouldn't come into effect in escalating stages until 1989 or so, when the bill would have to be reauthorized again.

Mr. FORD. You know, I've thought fondly for some time about the idea that if we want to spend ourselves into oblivion on defense, that we ought to put it up to the people by assessing some additional taxes to pay for defense.

When I first started thinking about that, I thought if there's one thing you could get people to raise their taxes for, it would be defense. I now don't believe that any longer. I'm wondering if the defense people might not want to hitchhike on us with a defense-education tax and use the good feeling that the people have out there toward education to offset the negative feelings they are developing about defense expenditures.

These last 2 weeks over here with the defense bill are a wholly new experience for me. In 21 years of those bills coming to the floor, I've never seen the Congress acting as strongly as it has to tighten up on responsibility for spending that money and to reduce the potential expenditure of money. It's a very dramatic change, and I don't think it happened because people down here thought it out; I think it's because they are hearing the same thing that I've been hearing.

Quite surprisingly, I found, when I gave the people in my district earlier this year an opportunity on a questionnaire to tell me where to cut the budget, the single most popular budget cut that we gave them out of the selection of the President's proposals and others was freezing defense at 1985 dollars, and 66 percent of the

people in my district that I've always described as very hawkish and very pro-defense said they wanted to cut there.

Less than 18 percent wanted to cut education funding. But no other cut, other than defense cuts, had more than 40 percent, which indicates a substantial shift has taken place. Maybe it's the $600 toilet seats or something like that that has been at work.

But it's even tough for the fellows in the Pentagon to get the money they want now, which tells you something about how tough it is to get money around here, and we are, unfortunately, operating in the constraint of dealing with the budget at the same time that we are dealing with reauthorization, and Congress will be very reluctant to follow us down a road that can be identified as budget-busting.

If you could help us to reeducate the country and, through them, the Congress, to the idea that defense expenditures have been justified always because they say this is what we need for a safe future, and therefore we are investing in our safety when we spend it on defense, if we could get people to think the same way about the investment in education, we could start changing thoughts about where the priorities ought to be.

This committee, which is somewhat atypical of the Congress and its thoughts about these programs, isn't going to be able to do that by itself.

I'm interested also in the NAICU proposal. When it was first brought to my attention, it got my attention quickly because, on its face, it does the same sort of thing, when you look at gross dollars, as Mr. Tenzer's proposal, because it would require a substantial increase in the program. On its face, it also has the appearance of unduly loading the combined formula and shifting resources to the higher cost institutions.

However, it's one of those things that, the more you look at it, and the more it's explained to you, the more sense it tends to make. It's one direction that has some appeal as a possible way to go. I don't know how much acceptance it's going to have, but at least it shows an attempt.

You, as those who have talked to me about it before, always start out talking about it as the compromise.

Mr. STEPHENS. Yes, it is.

Mr. FORD. The question is, who participated in the compromise?

I'm not real sure of how the other folks that can be expected to react to that proposal are going to react as yet, but there are some difficulties with it.

This is the first time I've ever indicated to anyone that I'm not ready to throw out NAICU's proposal.

Peter is even smiling.

So we will look at it very closely.

Mr. STEPHENS. Thank you, Mr. Chairman.

Mr. FORD. Mr. Atwell, your proposal, predictably, when you talk about the levels that you would go to and the percentages, comes closer to a consensus of the suggestions that we received from various groups about what should be done with Pell. It costs a little more money.

On page 3 of your prepared text, you say, "Assuming expenses of $3,000 for all students living on or off campus, and continuation of

the existing $1,500 assumption for those living with parents, would more closely approximate minimal living and miscellaneous expenses." That's after you had suggested we get rid of Molly Orshansky's formula.

Mr. ATWELL. That's right.

Mr. FORD. I have never liked Molly Orshansky's formula when used with education, because Molly's formula talks about an America that never was and never will be, where the cost of a market basket—and she used in developing that formula only a market basket cost of a basic subsistence diet and then over the years escalated that cost to determine how much it took to be poor.

We, for lack of better tools, started using Orshansky when we started getting into need-based programs first with the Elementary and Secondary Act in 1965 and then later with the Pell, and we haven't had the wit or the wisdom, in spite of the development of computers and greater information available from a lot of sources than before, to make changes.

So, if we can find a way to get away from that, it will put an element of fairness in the program that has been long missing.

When you look at the Department of Labor calculations, which are not done on a single national model but are done on a regional basis—standard statistical metropolitan areas—you see very vast differences.

In Detroit, it now costs a family of four about $15,000 to be poor. I think Molly's formula still says you're not poor if you've got more than $9,000, or something like that. In other parts of the country, that Labor Department figure would be much lower. Colleges are not all located in low-cost areas.

I painfully look at the cost of attendance at the public institutions in my State and realize that one of the reasons that that goes up is that the cost of maintaining the dormitories and the food programs has to be competitive with what the market is in the area where they are found, and schools that are located in relatively high-cost areas for all people to live don't have an exemption for their students. So the student who is attending school in a high-cost area is being unfairly burdened by this national presumption.

Now, there have been suggestions of trying to go in the other direction and put more responsibility at the institutional level in determining what real costs are.

When you were working on how to get around the unfairness of continued use of Orshansky, together with reaching this magic figure, did you give any thought to an alternative of a determination being made on the basis of factors that exist in a given area as distinguished from national norms?

Mr. ATWELL. We would like to give the institution maximum flexibility in that regard, Mr. Chairman. We do concede that we ought to have a uniform standard with respect to Federal funds, and, as you would note, the BLS is a more reasonable standard than Orshansky and would make the Pell grant methodology compatible with the uniform methodology as well. So it has that advantage.

But we would, with respect to the institution's own funds, like the institution to have flexibility measuring need.

Mr. FORD. Thank you very much.

Mr. Coleman.

Mr. COLEMAN. Mr. Atwell, I wonder if you have costed out your proposal.

Mr. ATWELL. Yes, we have.

Mr. COLEMAN. Is that included in your testimony somewhere?

Mr. ATWELL. It's on the order of about $5.2 billion in the case of the Pell Grant Programs.

Mr. COLEMAN. Five point two?

Mr. ATWELL. Yes.

Mr. COLEMAN. How does that compare with current law?

Mr. ATWELL. We will be spending about $3.7/$3.8 billion in the current year for the Pell Grant Program.

Mr. COLEMAN. Dr. Stephens, your proposal is based upon increased funding as well. Have you costed out your proposal?

Mr. STEPHENS. Mr. Coleman, I understand it's about $5.4 billion. It would not become effective, I think, until 1987-88 academic year. I think that's the year that it would become effective.

So if we look at the past growth in the Pell fund, we think this is a reasonable expectation as to what might be the case or reasonably could be the case. If we follow what Mr. Ford has said of rallying our troops nationwide to see the importance of these relatively small funds compared to where our other dollars go, I think it's a fund we could reach.

Mr. COLEMAN. If no additional funds were available for Pell, say funding was kept closer to what current services are—do you feel that your proposal would still be better than the current law?

Mr. STEPHENS. I think it would be, because I think it tends to remove the patchwork. I'm not sure all I mean by that right now, but I think that it begins to help us sort out where Federal funds go and what do they actually buy—tuition, fees, books, living costs, room, board—so that we could know where those funds go, and I think that the two parts to it would help us then target funds to the really needy students and the living costs.

In my State, for instance, we are concerned about the so-called welfare mother. She needs help with living costs. So we want to be able to target funds for her as well as for the other direct costs—the books, tuition, and fees.

If there are students that don't need living costs, let's be able to not give them as much but help them with the other costs so that they can add to that from their own self-help and a Pell grant or a State grant or what the college can give.

So I think, in sum, it would help make more order and would help us know where Federal funds are actually going and what they are actually buying.

Mr. ATWELL. Mr. Chairman, could I further answer the question Mr. Coleman put to me?

Of the $5.1/$5.2 billion for the proposal as it is submitted—I think we would like it understood that our proposal provides the foundation in terms of principles for the Pell Grant Program as we see it, and if one wanted to spend less money, it is possible to do that and keep the framework that we've provided.

There are several things you might do, but, as submitted, it's $5.1/$5.2 billion.

51-566 O - 86 - 4

Mr. COLEMAN. I wonder, Mr. Atwell, if you could supply us with something similar to the graph contained in the NAICU proposal which shows the distribution of dollars and recipients under your program as it relates to various institutions.

Mr. ATWELL. We would be pleased to do that for the record.

[The information follows:]

AMERICAN COUNCIL ON EDUCATION,
July 15, 1985.

Hon. WILLIAM D. FORD,
Chairman, Subcommittee on Postsecondary Education, Committee on Education and Labor, House of Representatives, Washington, DC.

DEAR MR. CHAIRMAN: In response to the requests of Subcommittee members at the June 27 hearing on the Pell Grant program, we are providing several illustrations of how the ACE recommendations could be modified to take account of budget constraints.

As I testified, we estimate that full funding of the ACE recommendations would cost approximately $5.1 billion. This would include a maximum award of $3,000, equalization of tax rates between dependent and independent students, a more realistic assumption for non-tuition expenses, the use of the BLS low budget, and the award limitation of 60% of cost minus expected family contribution.

Our first illustration is based on the assumption that funding would be limited to current services. This would provide the FY 85 funding level of $3.6 billion (including the supplemental), increased by 4.5% for inflation, totalling $3.77 billion.

This level of funding would be sufficient to accomplish the two basic reforms which are the foundation of our proposal: (1) equalizing the amount assumed for non-tuition expenses for those living on- and off-campus, and establishing that amount at a more realistic level, and (2) correcting the formula for computing the Pell award so that students do not receive awards which in combination with their expected family contribution (EFC) exceed 60% of cost of attendance.

We estimate that the funding needed to increase the non-tuition expense allowance to $3,000 for those lining on- or off-campus (not with parents) would be offset by the roughly $200 million in savings resulting from correcting the formula to require that no student's award exceed 60% of cost minus EFC. The Pell Grant program with these changes would cost approximately $3.67 billion.

If Pell Grant funding above the current services level were available, additional changes could be made to substantially increase benefits to needy students, such as increasing the maximum award and equalizing tax rates between dependent and independent students. The cost of these desirable changes would depend on the extent to which the maximum is raised, whether tax rates imposed on discretionary family income were retained or adjusted slightly higher to minimize award increases to recipients above the poverty level, and whether tax rates for all independent students wee reduced to the level of dependent students as we recommended, or equalized only for certain groups, such as single parents or independent students with dependents. To make these changes with a maximum award of $2,400 would cost $4.3 to $4.4 billion.

Such a level of support could therefore fund most of the Pell Grant changes recommended by ACE and make major improvements in the equity of the program. However, this level would not be sufficient to fund a $3,000 maximum award, which we view as important to retain the current distribution of Pell funds between needy students in the public and independent sectors, since the increased benefits with a $2,400 maximum would accrue primarily to those in public institutions. Nor would it be sufficient to adopt the more generous Bureau of Labor Statistics (BLS) low budget instead of the Orshansky poverty index.

A table is attached showing the distribution by sector at these three levels of funding.

Sincerely,

ROBERT H. ATWELL, *President.*

COMPARISON OF PELL GRANT OPTIONS WITH CURRENT PROGRAM

[Estimates for academic year 1987–88]

	Recipients	Program cost and sector distribution				
		Total	Public 2 yr	Public 4 yr	Independent	Proposed
Current program ($2,100—EFC 60 percent of cost):						
Nontuition expense (current living allowance)	2,779	$3,574.0	$849.4	$1,334.9	$815.0	$574.8
Family offsets (Orshansky; percent)		100	23.8	37.3	$22.8	16.1
Tax rates in EFC (11/13/18/25 percent dependent; 75 percent single independent; 25 percent independent with dependent)						
Options: [1]						
Option A ($3,000—EFC, 60 percent of cost—EFC):						
Nontuition expense ($1,500/$3,000)	2.94	$5,108.1	$1,141.6	$1,854.1	$1,280.5	$832.0
Family offsets (BLS low budget; percent)		100	22.3	36.3	25.1	16.3
Tax rates in EFC (18/20/24/33 percent)						
Option B ($2,400—EFC, 60 percent of cost—EFC):						
Nontuition expense ($1,500/$3,000	2.88	$4,403.7	$1,092.9	$1,634.4	$981.5	$694.8
Family offsets (Orshansky; percent)		100	24.8	37.1	22.3	15.8
Tax rates in EFC (13/16/22/29 percent)						
Option C ($2,100—EFC, 60 percent of cost—EFC):						
Nontuition expense ($1,500/$3,000 living)	2.77	$3,761.2	$986.7	$1,376.8	$814.6	$583.0
Family offsets (Orshansky; percent)		100	26.2	36.6	21.7	15.5
Tax rates in EFC (11/13/18/25 percent)						

[1] For nontuition expenses, we assume $1,500 for students living with parents and $3,000 for all other students.

Source: ACE estimates produced from Department of Education computer model

Mr. COLEMAN. Could NAICU give us another chart showing a mixture of your proposal under current expenditures, which is gap that is not shown here.

Mr. ATWELL. I will say yes, we will help you with that.

Mr. COLEMAN. All right. Thank you.

[The information follows:]

PELL GRANTS PROPOSAL

The NAICU proposal for reauthorizing Pell Grants is designed to provide access for needy students to all types of higher education, and redress the imbalance grant and loan aid. It would restore the original goal of the program to establish Pell Grants as the foundation grant upon which all other federal student assistance would be built. It would help all students who demonstrate need in meeting their instructional expenses, and also assist low-income students with their living expenses. And it would provide for balanced growth in Pell Grant funding by maintaining equal emphasis on instructional and living expenses.

Students demonstrating need would have Pell Grants calculated on the basis of a new, simplified, two-part formula:

1. One-half of instructionl expenses (tuition, books, mandatory fees), up to a maximum instructional expense allowance of $1,625, *plus*,

2. All of living expenses (room, board, transportation, and other living-related expenses), up to a maximum living expense allowance of $1,625, for all students from low-income families (up to 150 percent of the federal poverty level).

EFFECTS

Maximum Pell Grant of $3,250 to students with family adjusted gross income of $16,500 or less, attending a college with instructional charges of $3,250 or more.

POLICY BENEFITS

Limited federal grant dollars would be focused where they belong—on those with the least who have the greatest need (See charts 1 and 2);

Federal grants would be targeted in a cost-effective manner, both from the point of view of the student and the federal budget (See chart 3);

Pell Grant distribution would not shift substantially among different types of higher education institutions (See chart 4);

Congress, through its major student grant program, Pell Grants, would provide all needy students with real access to all types of higher education.

ASSUMPTIONS

Identical allowances would be provided for instructional and living expenses, recognizing that Pell Grants alone should not be expected to meet all of a student's expenses.

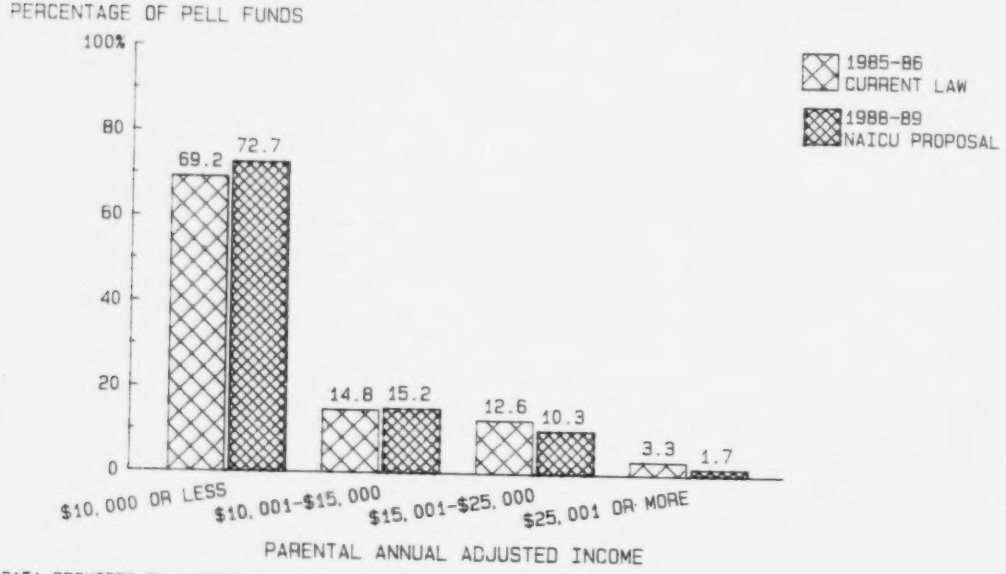
Instructional and living allowances would increase gradually, and in the same amounts, during the authorization period.

Existing dependent student taxation rates on discretionary income would be applied to all dependent students and independent students with dependents; existing independent student taxation rates would be applied to single independent students.

COST

$4.5 billion for FY 1988 (academic year 1988–89).

NAICU PROPOSAL TARGETS FUNDS ON LOW INCOME STUDENTS (LESS THAN $10,000) PERCENTAGE DISTRIBUTION OF PELL PROGRAM FUNDS

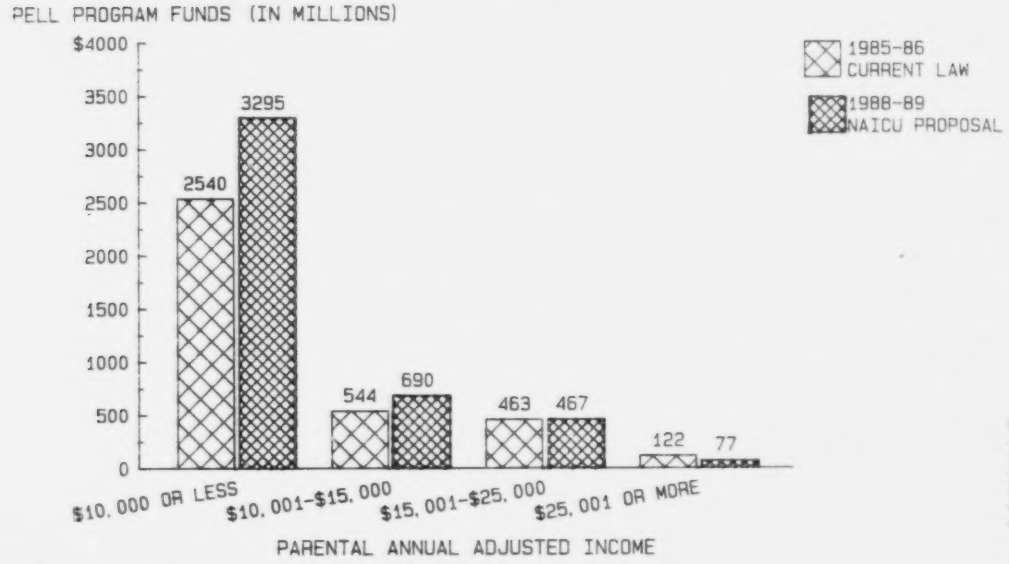


DATA PROVIDED BY AMERICAN COUNCIL ON EDUCATION
WASHINGTON, DC

CHART #1

97

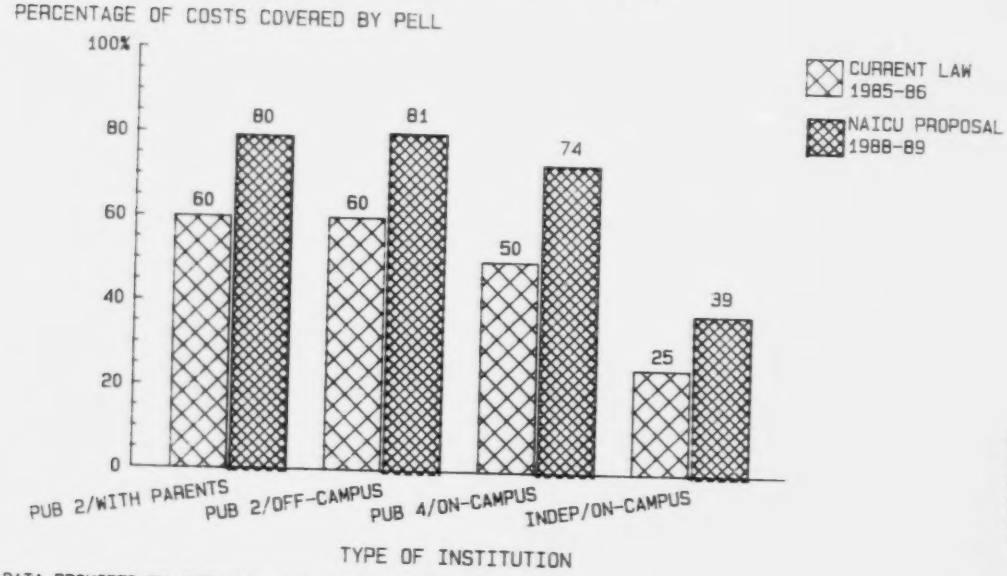
NAICU PROPOSAL TARGETS FUNDS ON LOW INCOME STUDENTS DISTRIBUTION OF TOTAL PELL PROGRAM FUNDS



DATA PROVIDED BY AMERICAN COUNCIL ON EDUCATION
WASHINGTON, DC

CHART #2

NAICU PROPOSAL MEETS GREATER PERCENTAGE OF COSTS FOR LOW INCOME STUDENTS (LESS THAN $10,000)



DATA PROVIDED BY AMERICAN COUNCIL ON EDUCATION
WASHINGTON, D.C.

CHART #3

NAICU PROPOSAL MAINTAINS SECTOR BALANCE
DISTRIBUTION OF DOLLARS AND RECIPIENTS

DATA PROVIDED BY AMERICAN COUNCIL ON EDUCATION
WASHINGTON, D.C.

CHART #4

Mr. FORD. Mr. Gunderson.

Mr. GUNDERSON. Thank you, Mr. Chairman.

I guess to a degree I want to follow up on Mr. Coleman's questions, because I must admit to a bit of frustration.

Sitting here listening to all of your testimonies, I'm not sure you're in the same world we are in Congress. We don't have the luxury of talking of $1- to $2-billion increases in any one program. What we really need from you is how to, with little or no increase, better adapt the present programs, because I think that's the only realistic alternative that we are going to be facing in getting anything through not only the Senate but, I have to tell you, the House.

We have had five authorization bills up thus far, including now the Department of Defense authorization. Every one of those authorization bills has been frozen in 1986 at the 1985 level, and I just see that trend continuing on down the line in every program that comes up this year in Congress on a bipartisan basis.

So when you get into this business of spending more money—and I like to call myself as pro-education as anyone—it's not going to happen. Any proposal that comes before us that suggests significant increases, I'm not sure is a valid proposal. That's something you put in the dream list, someplace out there, for 10 years down the road, if things really do change.

I appreciate that, as I understand it, you both are saying that the concepts of your program, however, should be considered even under present funding. Is that correct?

Mr. STEPHENS. Yes.

Mr. ATWELL. I think our proposal could be adapted to less than $5 billion, yes, and I think also our proposal should be considered against the background of our guaranteed student loan testimony wherein we suggested to this subcommittee some proposals which would have the effect of saving several hundred million dollars in that program and thereby bringing into being more balance between grants and loans, which Professor Tenzer referred to.

Mr. GUNDERSON. Mr. Atwell, you suggested in your proposal that we ought to automatically tie SEOG's to the Pell grant funding. Do you mean by that, that we ought to tie it for that individual student or in terms of funding for that campus?

Mr. ATWELL. No. Just the overall appropriation, Mr. Gunderson, not for the individual student and not even for the individual campus.

Mr. GUNDERSON. Oh, OK. The overall appropriation here.

Mr. ATWELL. Yes.

Mr. GUNDERSON. I'm assuming we are going to get into—I know we are going to get into some of the campus-based programs later on. There is a lot of discussion as to whether or not they ought to be totally revamped.

I made the statement last session that, when everyone from Paul Simon to Ronald Reagan wants to revamp the programs, there's an indication that we probably ought to look at them, and thoughts that you might have beyond your testimony would be helpful later on.

Mr. ATWELL. I would have two responses to that. One is that our proposal to tie the appropriations is a substitute for the present

triggers which have been largely ignored, and also I would say further that we continue to believe those campus-based programs are absolutely essential as part of the panoply of Federal programs.

Mr. GUNDERSON. Dr. Stephens, you suggest in your proposal that we ought to insert price sensitivity for low- and middle-income students into what I assume is the Pell grant formula. I am assuming what you are saying by that then is a better reflection of the cost of the particular institution than presently occurs. Is that correct?

Mr. STEPHENS. Yes, and in terms of the other question that you raise, the actual spending for the proposal we have set forth will not be until the year 1988.

I understand the need to hold costs and to not have pie-in-the-sky dreaming about that, but I would like to think that we are not going to be freezing at the present fiscal levels the Federal outlay for higher education until 1988.

What we are trying to do is to simply say as we look down the road, and with the prospects that more dollars could come in, what are our needs and how could we, under this authorization, develop a plan that could help us know where those funds and target those funds to the neediest students and know where they are actually going.

Mr. GUNDERSON. Let me ask all three of you a final and a bit of a difficult question that I wrestle with, anyway; it's the philosphical question of:

Should the purpose of grants be access to higher education and the purpose of loans be choice? Based on some of your testimony, I think I can guess your answers, but I want to hear them.

Mr. ATWELL. I don't think so, Mr. Gunderson, speaking for myself on that. I think that both the grants and loans are an essential part of both access and choice, and if one adopted the formulation that access is done through grants, then you have precluded the possibility of many hundreds of thousands of students from attending the higher-priced institutions, and I at least would not want to see that happen.

So I think that both those things are involved in both kinds of institutions.

Mr. STEPHENS. You know, as a former teacher of history, I've been impressed with the statement that Thomas Jefferson made, "If a nation expects to be ignorant and free in a state of civilization, it expects what never was and never will be, and if we're going to ask everyone at the polls what the truth is about in what direction the country should go, we had better enlighten them."

So we don't have any choice, it seems to me, but to enlighten folks.

Mr. GUNDERSON. You are not suggesting that if you go to a public education institution you are not going to be enlightened, I hope.

Mr. STEPHENS. No, I'm not saying that at all. I'm speaking to the philosophical phases of it. Every child is born into this world ignorant and helpless, and unless we enlighten their mind, unless their mother picks them up and helps them get food, unless we enlighten that mind, so that they become productive citizens, I don't know how we are going to make it with the great dream that we have.

It costs money to buy food; it costs money to buy the enlightenment of the mind. It so happens, we have said that to be a leader, to be able to make it, to become a self-directed person, schooling is an important thing.

Most cultures don't even have schooling, and the kids learn how the tribal ways. We happen to need schooling, and we extend it upward. So it's not a cost, it's not a dole, it's an investment.

I have people who give freely money to help students. So it's a matter of grants and loans.

I think that what's happened in recent years is that we have tilted toward loans. We need to tilt back toward grants. I don't mean doing away with loans, but if we are going to have the complete package that we've had work, then it seems to me we need both of them.

I reflect on this fact, too, that in my State, every student that chooses a State school already has an average of $4,900 of taxpayers' money going to help pay his bill. That reduces the cost to him. Then there will be a Pell grant that will help a student.

So it seems to me that if there's any meaning to the words "access" and "choice"—freedom—you know, some degree of freedom, then we need both grants and loans.

I guess the testimony I've given today from my school and what I see from my peers is that we've tilted toward loans. We need to tilt back toward grants, and I think that it's in the collective interest to collect some money to help persons who don't have parents that can help pay the full freight of whatever school they are going to be going to.

Mr. GUNDERSON. Thank you, Mr. Chairman.

Mr. TENZER. Mr. Gunderson, I was going to answer.

Mr. GUNDERSON. Oh, I'm sorry.

Mr. TENZER. I would just say that I believe the faculties in the country think that both access and choice should be provided. Our testimony indicates we think that Pell grants are no longer even providing an underpinning for access.

In many, many cases, public institutions, such as in my own State, where the cost of attending our State university is roughly $5,000 a year, the maximum Pell grant of $1,900 doesn't really easily provide access to that. We think that both access and choice should be provided by Pell grants and additionally by loans and that each individual, depending on their initiative, energy, and ambition, ought to be able to find the place they can go to school and be helped to do so, because it's to the benefit of society.

Mr. GUNDERSON. Thank you.

Mr. FORD. Mr. McKernan.

Mr. MCKERNAN. Thank you, Mr. Chairman.

I apologize for being late. I've tried to skim over your testimony. If I say something that you've already covered, be sure to tell me.

Mr. Atwell, I gather you have put a pricetag of $5.1 billion on your proposals for Pell grants.

Mr. ATWELL. Yes, sir.

Mr. MCKERNAN. And that's up from between $3.5 billion and $3.7 billion in the present system?

Mr. ATWELL. Yes.

Mr. MCKERNAN. Have you done any cost figures for 1987 and 1988 and what the cost differential would be based on demographics and changes in projections in the existing Pell Program and what your proposal would cost in that year, because isn't that when it would really take effect?

Mr. ATWELL. Yes. We can supply out-year costs for the record, Mr. McKernan. We have done that first year.

I may have said this before you came in. Really, the $5.1 billion is not so much the point as the principles which underlie it, because, for example, if you wanted to scale down the middle-income eligibility for this program from the roughly $30,000 family income that we are assuming, to, say, $25,000, you do that when you adjust the tax rates on discretionary income; you wouldn't have a $5.1 billion pricetag; you'd have a somewhat lower one.

So we would like to keep the attention of the subcommittee focused on the principles that underlie this rather than the pricetag, because the pricetag can be adjusted downward by dealing with some of these variables—like how many middle-income people do you really—what does this subcommittee believe constitutes a middle-income family? There are those kinds of possibilities within the framework of our proposal.

Mr. MCKERNAN. I'd like to echo something that my colleague, Mr. Gunderson, said, and that is that price is a really big issue here. If the price tag on your proposal doesn't have to be as high as $1.5 billion I think your proposal all of a sudden takes on a lot more merit than it might at $5.1 billion.

I would hope that you would continue to work with us as we go through this process, because I think what we are looking for is some way to make the program work better, be more efficient, serve a better need, at a cost that we can afford.

I think all of us would like to spend more money than we are now spending, but the reality is, we're not going to spend much more, and we've got to find a better way to provide for those who truly need the benefits of the program.

One good example is the family contribution issue which you have raised. I am new to this committee, new to really analyzing Pell grants, but you make a persuasive case for taking a look at that and making sure the program provides funds for those who need it.

I'd like to ask all of you a question that I think we need to address on this committee, and that is what proportion of the student aid package ought to be grants? what proportion ought to be loans?

I gather that there is some concern that we seem to be switching more heavily to loans than grants. Some have testified in other hearings that we ought to front-end load the grants and then perhaps move to more loans at the end.

I'd like to get your opinion on that, because we can't look at this in a vacuum. We have to realize that we basically have however many dollars we have been spending, with a little bit of increase in total student aid.

I think that what we are really going to have to do on this committee is to start moving the pegs around and try to find a better way to distribute those dollars. If it has to go more into grants, then maybe that's going to mean it's going to have to be better tar-

geted to certain students, and other students will have to be covered under the loan program.

I'd like to get your comments on that.

Mr. ATWELL. I don't think there's any magic figure to this, although the 1980 amendments did speak of self-help and grants amounting to something on the order of 75 percent, as I recall it.

We are a long way from that, and, I think, as all three of us have been saying, the balance has shifted much too much in the direction of loans.

I would certainly like to get back to something that was assumed in the current law—something close to that. I don't think we're likely to get there, for the reasons you have been talking about, but I think Professor Tenzer has very eloquently stated the difficulties these loan burdens are posing for families.

So I would not like to see much more than 25 percent or so in a loan burden.

Mr. MCKERNAN. Mr. Stephens?

Mr. STEPHENS. Well, I concur with that and would just like to remind you that I think, to the degree that we permit the loans to go up, then we let the major funds, at least for the private sector, which are gifts from graduates, go down, and I think that those dollars have to be seen as the total pool of dollars that a college has to work with.

When, on a $5 million budget, I'm going to raise a million of that in gifts from graduates, if they are carrying heavy loans, and the loans go up, then those gifts go down and we have more need to help the oncoming numbers of students. So I would just point out to us that I think we need to keep that in mind.

As far as loans, what is left of need should be the limit of the loans, and of course we can work on that and what the needs in that analysis are. I understand that you're going to be dealing with what the needs structure should be at another hearing time, and I won't get into that.

Mr. MCKERNAN. Let me interrupt you for 1 minute. I gather from the way the chairman has set up these hearings that we are going to be dealing with just about everything that you have thought of on this issue before the hearings are over. So I'm sure that's the case.

Mr. STEPHENS. The chairman knows about this from having worked at it for years.

Mr. TENZER. I would like to say that we, too—the basic thrust of our testimony is to redress the balance between grants and loans more toward grants. We feel we are now educating a generation of students. The atmosphere has changed, because we are no longer graduating people and congratulating them going out to get a job and start a career. We are clamping someone on the back with a $20,000 debt burden the day they graduate, and we want to see that burden reduced.

I would emphasize again that, while we haven't costed out our proposal, the most important thing in principle is to make the grants an entitlement.

I attended a hearing of this subcommittee last year when you were interrogating the then Assistant Secretary of Education about why they weren't going for the Pell grant moneys because of the

shortfalls, and I must say that both sides of the aisle were laughing at his testimony.

But it chills the students and the financial aid offices on college campuses every year to hear mutterings about linear reductions in Pell grants in the subsequent years. We think Pell grants should be an entitlement.

Mr. MCKERNAN. One final question. In the packaging of student aid, how would you feel about being able to put a few more dollars into grants and have the quid pro quo for that be nonsubsidization of interest rates after graduation?

In other words, I have a concern about whether or not the GSL Program is artificially inflated by the continued subsidization of the interest rates of people who have been out of school for 10 years, or for 5 years. Perhaps those dollars could be better used in giving people more access to loans to get into college, rather than subsidizing people who are earning a lot more than most of the taxpayers in this country afterward.

Does anyone else want to comment on that?

Mr. ATWELL. I think that's a fair tradeoff up to a point in our own testimony, and the guaranteed student loan program does call for an increase in that interest rate; it all depends on where you think interest rates are going; and we also propose the removal of subsidization in the case of parent loan programs.

But I think that, in general, that's a fair tradeoff as far as I'm concerned.

Mr. STEPHENS. I would agree with that.

Mr. TENZER. I think we would make it unanimous.

Mr. MCKERNAN. Thank you, Mr. Chairman.

Mr. FORD. Mr. McKernan, we like to have you here, because you get consensus out of these normally competing groups.

Mr. Henry.

Mr. HENRY. I pass, Mr. Chairman, other than to observe that I think in this case perhaps we need your wisdom to settle this little problem.

Mr. FORD. Mr. Goodling.

Mr. GOODLING. No questions.

Mr. FORD. In response to Mr. Henry's request, my dear friend Mr. Gunderson has become more pessimistic in his time here than I am.

I think you ought to spend more time talking to our former colleague from this committee, Mr. Kemp. He assures me that supply side economics is working and that we are growing our way out of this mess, and by 1987 we will have plenty of money for these programs.

Jack is a nice fellow. He was a member of this committee for a long time, and I tend to believe him. I always look for the Easter Bunny, too. [Laughter.]

Without objection, Dr. Stephens has submitted a profile on the student population of Greenville College and the Pell grant population which he would like to have inserted in the record immediately following his testimony and comments today.

Thank you very much, gentlemen, for your cooperation and for the effort you have put into the preparation for the committee record on this important subject.

Mr. STEPHENS. Thank you, Mr. Chairman.

Mr. TENZER. Thank you.

Mr. ATWELL. Thank you.

Mr. FORD. The next panel is Eleanor Chelimsky, director of the Program Evaluation and Methodology Division of the General Accounting Office; Mr. William Bennett, the 1984-85 president of the National Association of Student Financial Aid Administrators, and presently director of financial aid at Cleveland State University in Ohio; Mr. Mark Heffron, assistant vice president, Financial Aid Services, American College Testing Program; and Mr. David Strada, chairman of the Student Financial Aid Administration Committee, Association of Independent Colleges and Schools.

Without objection, the prepared testimony of the witnesses will be inserted in full in the record. Let's first start with our friends from the GAO.

STATEMENT OF ELEANOR CHELIMSKY, DIRECTOR, PROGRAM EVALUATION AND METHODOLOGY DIVISION, GENERAL ACCOUNTING OFFICE

Ms. CHELIMSKY. Thank you, Mr. Chairman. Good morning. Good morning, everyone.

We are very pleased to be here today to talk to you about our review that we have done of validation in the Pell Grant Program. I just wanted to make sure that everyone understands that we have not reviewed the Pell Grant Program as a whole; we have looked essentially at the method that the Department of Education used to validate that program.

Before starting, I would like to introduce the people who are here with me, who have worked on the study. We have Fritz Mulhauser, who is the project manager; and Robert York, who is the study director; and we also have Lois-ellin Datta, who runs our human services evaluations. She is an associate director at the Program Evaluation Methodology Division.

I was planning to abbreviate this to the degree I can and in consideration of the constraints of time we have.

As you of course well know, the Pell Grant Program awards grants for a postsecondary education to students in financial need. It receives more Federal funds than any of the five other student aid programs funded under title IV of the Higher Education Act of 1965.

In the year 1983-84, grants averaging $988 per student were received by over 2.8 million students, for a total of $2.8 billion. The program takes in 5 million or more applications every year and handled payments through thousands of schools. So it's a good size program by almost any standard.

Many people recall, I think, that studies of the 1980-81 program had shown a serious problem of inaccurate awards. So the Department of Education increased the number of applicants who had to document or validate their eligibility for Pell grants.

As a result of this increase, in 1982-83, we had a situation in which more than half the recipients of Pell grants—that is, over 1.5 million people in a total of less than 3 million—were asked to

validate their applications. This was five times the number required to do so the preceding year.

Recognizing the burden that this would entail then, the Department also reduced the number of items to be verified from six to two. The two were adjusted gross income and income taxes paid.

In September 1983, Senator Paul Simon, then chairman of this subcommittee, asked the GAO to examine the costs of validation and its other effects on schools and students. In addition, he asked us for a broad range of related information to aid the subcommittee in understanding the problem of error in the Pell Program, the Department's response to the problem, and alternative approaches that might be tried.

The related issues included things like the origins, goals, and costs of the Department's validation approach, the quality of the basic data on error that are available to the Department, the soundness of certain technical aspects of the current validation approach, the Department's evaluation of its own methodology and its use of the results, and, finally, experiences of other agencies that might suggest solutions and alternative methods or that might offer a better balance of positive and negative effects.

All of the issues raised by this subcommittee reflect three basic concerns inherent in the design and oversight of the Pell Program: A concern to give aid to those who have need, a concern to base awards on accurate data about need, and a concern to minimize the administrative costs and burdens for students and schools in meeting the objectives of the program.

Our review is now complete, data collection ended in the fall of 1984, and we expect to issue our final report to Senator Simon by the end of the summer. Let me give you a capsule resume of our five major findings.

First, expanded validation did have an impact on both institutions and students, but neither impact appears to have been large. Our data show that the burdens imposed by the Department's method were not as great as had been expected.

Second, the benefits of the mass validation were also not as great as had been expected. Now, it is true that expanded validation did reduce a small segment of the total error problem. For example, in the year 1980-81, 71 percent of recipients had had an award in error. In 1982-83, that proportion decreased to 63 percent.

But 63 percent constitutes a sizable error in the program. The estimated dollar total for all types of error was $649 million in 1982-83 despite the reduction of the 8 percentage points.

Six hundred and forty-nine million dollars is about 27 percent of the total $2.4 billion in grants awarded that year, and, again, with regard to the 63 percent rate of error calculated according to Department standards, that rate only decreases to 40 percent when the standards are relaxed.

So this finding comes from credible data, and the problem does not go away even with a less stringent definition of error which we use to reanalyze the data.

We had, for example, changed the way in which we defined error. The Department uses plus $2 or minus $2, and other programs use plus $5, minus $5 plus $10, and we went to plus or minus $100, and we also looked at error in terms of the documents

that were missing for which the Department had counted overawards when a document was missing.

So we threw all that out, and we still only got down to $530 million, and that is still a substantial problem.

So our first two findings are that both burdens and benefits associated with the Department's method have been quite modest.

Our third finding is that the data on error do not show that applicants and schools simply make mistakes that benefit them. Underawards as well as overawards occur, and they result from errors by both applicants and institutions.

Now, it's true that overawards are sizable, as I've just said, but there are also frequent and sizable underawards. What I want to emphasize here is that both types of error are important in terms of the basic program concerns I mentioned a moment ago.

What underaward means is that a leakage is occurring from the program objective of giving aid to those who have financial need. Overaward, of course, generally indicates a waste of program resources, although the extent of that waste is clearly a matter of definition.

If you take underaward and overaward together, it means that funds in the Pell Grant Program are misallocated to the tune of 27 percent, that the error rate is considerable no matter how you define it, and that the portion in error is not being accurately targeted on financial need.

So both types of error must be addressed if program objectives are to be met; $649 million dollars in a $2.4 billion program is a lot of error.

Yet Department action—and this is our fourth finding—has chiefly centered on those student errors leading to overawards, despite the fact that errors resulting in both overawards and underawards have persisted and that underawards are caused twice as often by institutional error as by student error.

We found that little has been done to address errors emanating from institutions or to reduce the problem of underawards generally.

Our last major finding is that the Department's approach to Pell error has been somewhat unsystematic. It lacks clear goals and specific targets, it seems to be reactive rather than pro-active, and it has been hampered by partial strategies and uncoordinated management.

These problems have created data gaps which, in their turn, have contributed to the adoption of corrective initiatives like validation that have been largely unsuccessful in solving the error problem.

These findings lead us to raise two closely related matters for the consideration of the subcommittee. First, it may be time now, with the recent study results and those of this review, to give the Department further guidance concerning the priority that should be placed on the problem of error. The Department agrees that this guidance is needed.

Second, we think it's important to identify and address the data gaps that currently impede a real understanding of the problem. For example, current research doesn't establish the causes of error problems; it doesn't monitor error-prone institutions to see what

characterizes them; all institutions are not error-prone; it doesn't look at the cost-benefit ratio of the Department's corrective actions; and it hasn't produced data that would allow the Department to try to prevent errors rather than to correct them.

We think this augurs ill not only for understanding the error problem but also for monitoring the progress of future solutions as well.

So we are suggesting that the Department refrain from adopting further technical solutions to error problems until underlying issues of information availability, along with the issues of goals, strategy, and management have been clarified. Until that happens, it seems likely that error problems in the Pell Grant Program will continue. As things stand, decisions on hundreds of millions of dollars are being made each year through invisible and unaccountable processes of error.

We think that concrete direction from the Congress to the Department on the issues of the priority that should be accorded the error problem and a need to develop information to address it would go a long way to help the Department achieve a real reduction of all types of error in the Pell Grant Program.

That concludes my statement, Mr. Chairman. We would be happy to answer any questions the committee may have.

[The prepared statement of Eleanor Chelimsky follows:]

PREPARED STATEMENT OF ELEANOR CHELIMSKY, DIRECTOR, PROGRAM EVALUATION AND METHODOLOGY DIVISION

Mr. Chairman and Members of the Subcommittee, we are very pleased to be here today to discuss the findings from our review of validation in the Pell grant program.

As you know, this program, which awards grants for postsecondary education to students in financial need, receives more federal funds than any of the five other student aid programs funded under title IV of the Higher Education Act of 1965 and its amendments. In 1983–84, grants averaging $988 per student were received by over 2.8 million students for a total of $2.8 billion.

Because studies of the 1980–81 program had showed a large problem of inaccurate awards, the Department of Education raised the number of applicants who were required to document or "validate" their eligibility for Pell grant awards. As a result, in 1982–83, more than half the recipients of Pell grants—that is, over 1½ million people in a total of less than 3 million—were asked to validate their applications. This was five times the number required to do so the preceding year. Recognizing the burden this would entail, the Department also reduced the number of items to be verified from six to two.

In September 1983, Senator Paul Simon, then chairman of this subcommittee, asked the U.S. General Accounting Office to examine the costs of validation and its other effects on schools and students. In addition, he asked us for a broad range of related information to aid the subcommittee in understanding the problem of error in the Pell program, the Department's response to the problem, and alternative approaches that might be tried. The related issues included the origins, goals, and costs of the Department's validation approach; the quality of the basic data on error that are available to the Department; the ways in which the Department decides on its goals and methods in this area and its consideration of burden while making decisions; the soundness of certain technical aspects of the current validation approach, the Department's evaluation of its methodology and its use of the results; and, finally, experiences of other agencies that might suggest solutions and alternative methods, or that might offer a better balance of positive and negative effects.

These issues reflect three basic concerns inherent in the design and oversight of the Pell program: a concern to give aid to those who have need, a concern to base awards on accurate data about need, and a concern to minimize the administrative costs and burdens for students and schools in meeting the objectives of the program.

Our review has been completed with data collection ending in the fall of 1984, and we expect to issue our final report to Senator Simon by the end of the summer.

In brief, our review has produced five major findings:

1. Expanded validation did have an impact on both institutions and students, but neither impact appears to have been large. Thus, the burdens imposed by the Department's method were not as great as had been expected.

2. On the other hand, the benefits of the mass validation were *also* not as great as had been expected. While expanded validation has somewhat reduced a small segment of the total error problem, sizeable error continues. This finding comes from credible data, and the problem does not go away under less stringent definitions of error.

3. The data on error do *not* show that applicants and schools simply make mistakes that benefit them. Underawards as well as overawards occur, as a result of errors by both applicants and institutions. Overawards are indeed sizable; however, there are also frequent and sizable *under*awards. Both types of error are important in terms of the basic program concerns I mentioned a moment ago. Underaward signifies a leakage from the program objective of giving aid to those who have financial need. Overaward signifies waste of program resources. Underaward and overaward taken together signify that program funds are misallocated to some degree and that aid is not accuratley targeted on financial need. So both types of error must be addressed if program objectives are to be met.

4. Yet Department action has chiefly centered on those student errors leading to overawards, despite the facts that errors resulting in both overawards and underawards have persisted, and that underawards are caused twice as often by institutional errors as by student errors. Little has been done to address errors emanating from institutions or to reduce the problem of underawards generally.

5. Our last major finding is that the Department's approach to Pell error has been unsystematic. It lacks clear goals and specific targets, it is reactive and sporadic, and it is hampered by partial strategies and uncoordinated management. These problems have resulted in data gaps which in turn have contributed to the adoption of corrective initiatives that have been largely unsuccessful in solving the error problem.

These findings lead us to raise two matters for the consideration of the subcommittee. First, it may be time to give the Department further guidance concerning the priority that should be placed on the problem of error. Second, it is important to identify and address the data gaps that currently impede a real understanding of that problem. The data now available are inadequate not only for understanding the problem, but also for tracking future development and monitoring the progress of solutions. We suggest that the Department refrain from adopting further technical solutions to error problems until underlying issues of information availabilty—along with issues of goals, strategy, and management—have been clarified.

In the remainder of this statement, I will present some of the details of our findings about the effects of validation on students and schools, and then I will summarize our review of the Department's data on validation problems and how the Department has gone about responding to error.

IMPACT OF VALIDATION ON SCHOOLS AND STUDENTS

Impacts on schools

To obtain information about the impact of validation on schools, we conducted a national survey and individual case studies. First, we conducted a national mail survey of postsecondary institutions, asking them to report changes in institutional costs and burdens associated with validation in 1981-82, 1982-83, and 1983-84. The sample of 400 inlcuded all types of institutions in the Pell program that make their own disbursements to students. Over 80 percent responded to our survey, and our results can be generalized to about 4,000 schools. Second, we conducted in-depth case studies on all administrative costs for financial aid at 12 institutions. Nine of these 12 provided "before and after" cost information to show the dollar impact of expanded validation work in 1982-83. These two methods of data collection yielded four findings relevant to the subcommittee's concerns.

First, with regard to the extent of validation work, we found that it did increase substantially since 1981-82. The institutions responding to our national survey reported that they validated 64 percent of their Pell grant recipients in 1982-83 versus only 39 percent in 1981-82. We cannot determine exactly how much of the increase comes from the Department's requirements because some validation is voluntary. For example, the Department has never required 100-percent validation. Yet 32 percent of the institutions reported that they validated 100 percent of their Pell applications in 1982-83. This is a 52-percent increase in the number that reported doing 100-percent validation in 1981-82.

Second, school officials were generally positive toward validation and willing to see it expanded in some form to other federal financial aid programs. However, they also reported some costs and other problems with the 1982–83 validation requirements.

Third, regarding costs, institutions reported that in 1982–83 they increased the resources they used for validation (whether required or voluntary). For example, on the average, institutions reported that the time staff spent on validation increased by one third across all types of staff. However, we did not find evidence of a shift in priorities among all the tasks and functions in the aid offices from before to after expanded validation, despite the extra work.

Together, our case studies and national survey suggest that the dollar cost of Pell validation to institutions averages about $14 per case, but our case study data show that the cost varies widely—from $8 per case to $447 per case in different schools. The case studies also suggest that cost per validation are higher for schools with a constant influx of new or first-time applicants (such as proprietary schools) and for schools that handle comparatively fewer validations.

Fourth, other less tangible costs were experienced, including delays and difficulties in obtaining documents. Ninety percent of the institutions reported that they had to delay awards. Sixty percent had problems obtaining documentation from certain government agencies. Neither the support for validation, nor the reports of its problems, however, varied notably for different types of institutions.

Impacts on students

We used three methods to obtain information about the impacts of validation on students. First, in our national mail survey of institutions, we asked financial aid officers about the effects of validation on 1982–83 students. These data are nationally representative. Second, to obtain in-depth information (although it is representative only of the schools we sampled), we conducted a mail survey of 1983–84 students at three very different schools. We surveyed both validated and unvalidated students about their experiences getting Pell grants at a community college, a private traditionally black four-year college, and a private university. Third, we conducted telephone inteviews with validated and unvalidated Pell grant applicants for 1982–83 who had maximum eligibility but did not receive awards. Our analysis led to two findings.

First, on the process of validation as the students experienced it, institutions reported that students do have difficulties with certain steps, such as obtaining documents from government agencies (in cases where more than a tax form is needed). In addition, validated students at the three schools reported making more changes to their applications and experiencing more delay in their awards than nonvalidated students. However, validated students at the three schools generally reported that they did not have difficulty in providing the required information and that validation was not the only cause of award delays. Very few students, regardless of validation status, reported that they found it difficult to obtain a Pell grant.

Second, when we looked for the consequences of problems with validation, we found that these problems—whatever their cause—do not seem to have wide impact on the academic plans of most students, although some students' plans may be affected. The institutions reported that about 5 percent of their validated students made changes in 1982–83 academic plans because of problems with validation. These included decisions to enroll late or to defer enrollment to the next term, to change from fulltime to part-time enrollment, and to enroll in another institution. Are some students deterred altogether? We asked institutions, and some eligible non-recipients. Their answers suggest that most applicants are not deterred from higher education by validation problems, although some may be. Overall, institutions estimated that about 69,000 students (and potential students) may have had their academic plans for 1982–83 affected by problems with validation. Students told us of some financial consequences when some who were validated had award delays; frequently those with delay had to borrow money.

EVIDENCE OF CONTINUING ERROR IN AWARDS

We did not gather new data on Pell grant error, because the Department was completing another in its series of occasional large-scale studies of Pell grant awards in 1982–83. We evaluated the research to see if it was well done and credible as a basis for further action. We found that it was usable for our purposes (involving aggregate figures) but has some limitations. We then reviewed the research to see what it showed about error and the effects of validation. Our findings answered three main questions.

First, how large is the total problem of Pell error? The Department's review of 4,000 Pell grants in 1982-83, the year of the expanded validation, showed that error had declined somewhat compared to an earlier study done in 1980-81 but that substantial problems with award accuracy continued. In 1980-81, 71 percent of recipients had an award in error by at least $2; the proportion went down to 63 percent in 1982-83. The estimated dollar total of all types of error (overawards *plus* underawards) in 1982-83 remained quite high at $649 million, equivalent to about 27 percent of the $2.4 billion awarded in grants that year. The net error (overawards *minus* underawards) is $316 million, or slightly more than the amount recently added by the House in a supplemental appropriation for fiscal year 1985 to deal with shortfalls in Pell funds.

Second, where does error come from? The Department's data show that the two main sources are student (or application) error and institutional error. Students may make errors in completing an application and schools may make errors in determining eligibility, calculating awards, receiving and maintaining records, and the like. Errors by either can lead to students receiving more or less than they should. Student and institutional error are about equal in frequency and in the projected dollar cost.

Third, is the Department's policy having an effect? The Department's main corrective action in recent years—expanded validation—focuses on student error. However, we find that despite a substantial increase in validation of student applications, there was no overall reduction in student error. In one of the two application items validated in 1982-83, adjusted gross income, error did decline from a net error of $38 million in 1980-81 to $16 million in 1982-83, or a reduction of $22 million. However, error in the second item (taxes paid) which was relatively slight to begin with, did not decrease after validation. Overall, student error stayed about the same because of increased error in other items that were not validated.

Student error was present in 38 percent of awards in 1980-81; and in 39 percent in 1982-83, following the expansion of validation. Of the 39 percent of awards in error, 30 percent were overawards and 9 percent were underawards. The total of overawards and underawards stemming from student error was $328 million.

The Department has given little attention to institutional error. Nonetheless, it seems to have decreased somewhat, having been present in 42 percent of awards in 1980-81 and 34 percent in 1982-83. The major source of the reported decrease in institutional error was a reduction in the number of signed statements of educational purpose missing from school files. While this improvement was in fact attributable to action taken by the Department in consolidating forms, it did not save any money or make awards any more equitable. Our own analysis of error using a less stringent definition, to be discussed in a moment, ignored this type of "error" altogether.

Overawards—students receiving a larger grant than they should—are twice as frequent as underawards—42 percent compared to 21 percent. Some errors are big: while 360,000 students received over $550 *more* than they should have, 96,000 others received over $550 *less* than they should have. The average overaward is $444 while the average underaward is $259. Overawards more often stem from student error; underawards more often stem from institutional error. The Department's policy in expanding validation as its main corrective action was thus to focus on overawards and students much more heavily than on underawards and institutions. While this does aim at the greatest dollar error and at the achievement of savings, we find two problems with the approach. First, it ignores the importance of the fact that some needy students are not receiving the full benefits to which they are entitled. Second, student error remains high and dollar savings from corrective actions have been extremely modest.

DEFINING ERROR

The term "error," as used in the research and in our report, refers to a variety of discrepancies and problems. Some are clearly mistakes, but others have very different causes such as inherently error-prone application items requiring forecasts and documents not in school files at the time the Department researchers looked. Categorizing these as "student error" or "institutional error" does not mean in all cases that applicants or school officials failed to act as they should have.

Since there is no precise definition of "accurate award" in the statute or among the Department's rules, the Department made a series of subjective judgments about which source of data (from the researchers' interviews with students and parents, examination of official records, and school files) would be considered the "best value," or standard of accuracy, for each application item and other steps of the Pell

grant process, for the purpose of measuring deviations or error. We believe the research is sound in its measurement of deviations and projection of national aggregate estimates of error, but all statements about the extent of error are highly dependent on these subjective initial decisions about "best values."

ERROR RATES USING ALTERNATIVE DEFINITIONS

To test the sensitivity of the description of Pell grant inaccuracy to two specific definitions of error, we asked the Department to recalculate the error figures with a less stringent definition (which ignored errors arising from lack of documents, and considered awards to be accurate if they were within $100 of the amount calculated using all the best values). This recalculation reduced the proportion of recipients in error from 63 percent to 40 percent. The 40 percent included 27 percent of recipients who received overawards and 13 percent who received underawards. Under the most stringent definition, the programwide estimate of all kinds of error in 1982–83 amounts to $649 million, but it remains at $530 million even under the less stringent definition.

We noted that when the factor of missing documents was removed as a source of major institutional overaward errors, underawards by institutions exceeded overawards *in both numbers and dollar impact.*

We have concluded that error rates and their dollar consequences are substantial even under a far less stringent definition of "accuracy" than the definition the Department uses most of the time in its published reports on Pell awards.

SOURCES OF APPLICATION ERROR

After looking at the effects of validation, we examined the application items that continue to contribute significantly to student error. Although the Department's research reports "student error" as a single category, in fact it includes a wide variety of kinds of discrepancies, not all of which result from clear-cut errors that students and parents could avoid in filling out the original application. Besides obvious sources of error such as using a wrong number for a bank balance, error can result from the basic design of the current system of need analysis, reflected in the application, which calls for forecast data. Three of the four largest application errors are on times requiring estimates of data for a future period—estimates that research a year or more later often found to have been wrong. Still another source of error is in a complex worksheet in the application package, on which an applicant in 1982–83 had to follow instruction for entering up to 11 different figures for possible kinds of untaxed income before transferring the total to the main application. (By 1984–85, the worksheet was up to 18 blanks to be filled.) Worksheets and forecasts may be inherently error prone to some degree and forecast items may be difficult to verify.

EVALUATION OF DEPARTMENT ERROR RESEARCH

We found that the Department's research data are generally credible for projecting error rates and dollar consequences at the aggregate national level, but we have noted at least four limitations. First, the research is not structured to show the causes of error. The Department cannot make any statements about why students and institutions make the kinds of mistakes they do and thus it cannot plot effective corrective strategies to eliminate those mistakes. Second, although all types of schools have been studied by the Department, error rates by type of school are highly uncertain. This information gap weakens the Department's ability to focus scarce resources upon reducing errors in error prone institutions. Third, corrective action is hindered by the absence of information on promising practices at schools that might be adopted by others to improve the accuracy of their awards. Fourth, the overall extent of error in the program may be understated by the research, for two reasons. Not all students or institutions were included in the Department's research design. And underwards may have been underestimated, because the Department made no attempt to study incorrect denials of eligibility (students who should have received a Pell grant but were denied one through error).

DEPARTMENT OF EDUCATION APPROACH

As requested, we looked at how the Department has made decisions on the error problem, the Department's aims, and the costs of the actions it has taken.

We found the Department's approach unsystematic. Decisions about corrective action on error are hindered by the lack of a framework of goals or error-reduction targets, by short timeframes for analysis and decisions amid heavy demands for maintaining the operations of the system, and by problems in coordination in offices

that need to work together to merge data, analysis, and responsibility. The result has been reactive decisionmaking, and limited strategies (limited in being chiefly remedial, not preventive, and focused largely on student overaward error).

The Department spent about $5.5 million on validation in 1981–83, including doing research, performing validations for schools that do not administer the program themselves, overseeing the validation effort at other schools, and paying the costs of processing the corrections to applications that result from validation. Compared to outlays for Pell grants to students, or just the costs of administering the program, the costs of validation are very small. Making decisions for corrective action is further hampered by the fact that the Department does not track these costs, or costs to institutions, and so cannot compare costs and results for purposes of refining its corrective actions.

PROBLEMS OF INFORMATION FOR DECISIONMAKING

Because of the small effect of the Department's approach to error, and the unsystematic design of that effort, we looked at the information available for designing and evaluating corrective action and found many gaps. As noted above, the basic causes of error, such as simple misunderstandings of complex instructions, are poorly understood and little examined in the Department's research. Furthermore, baseline data on how financial aid systems work at different institutions are not available. Therefore, it is difficult to estimate the costs and burdens and other effects of mandated policies. Indeed, no such data were available when the continuing problem of error was being considered in 1981 and 1982, so that alternative approaches could not be analyzed quantitatively nor could the Department forecast the effects of the specific approach chosen (the five-fold increase in targeting students for on-campus validation of two data elements).

Finally, the unsystematic approach to corrective action (with few pilot tests, little knowledge of what already works at institutions, frequent changes in the details of corrective action concurrent with other changes in the Pell program, and evaluative information that is delayed and partial) means that it is hard to base decisions on a solid understanding of what has gone before. Numerous variables interact to determine the results of a policy such as validation; the Department has had particular difficulty estimating the dollar savings that can be expected from validation under different combinations of student selection criteria and application items to examine.

A variety of data improvements should be considered. Research should examine the causes of error, and learn more about how people complete the complex aid application and what changes could increase accuracy. Research could also pinpoint promising practices at institutions that seem asssociated with reduced rates of error. Data on error rates at individual institutions, and by type of institution, could allow much more precise targeting of corrective action. Strategies for gaining knowledge and data that could be more extensively used include pilot tests and experiments, and study of the experience of other agencies with topics such as application forms, ADP uses, training for institutional officials, and incentives for quality control. We suggest that OMB consider assisting the Department in locating and evaluating experience in other agencies on related matters. We emphasize the need for information on which to design and implement policy, though information on compliance could be improved as well, since now the only error data comes from episodic and non-comparable national sample surveys.

PERSPECTIVE ON FUTURE ACTION

An error-free program may not be attainable, but estimates of recent error do seem excessive. In light of the shortcomings of past, partial approaches to the error problem (including problems in their design, implementation, and evaluation) we are not recommending specific corrective actions to either the Congress or the Department. (In our report, we provide appendixes, with details on how further work could strengthen decisions on validation and on a variety of other promising approaches.) Rather, I want to raise here some questions about direction for future policy and the information that will be needed to set that direction and evaluate the results.

We therefore encourage the Department to delay any hasty action of the "quick-fix" variety, and to consider instead the underlying issues of the error problem's dimensions, its priority in terms of the Pell program's objectives, and the consequent logic that should drive the goals, strategies and management of any new approach. Without this basic clarification, it seems possible that another cycle of corrective action could have as little impact as that of 1982–83, for all the reasons we have

reported, including speedy decisions, missing data, and lack of coordination. For example, with specific error targets in mind (such as a certain percentage of reduction) for student or institutional error, and for underawards and overawards, the selection of specific strategies can be based on what is known about the specific causes of error in each case. Validation may or may not be appropriate, or it may be appropriate but in varying degrees, depending on the target. Requiring documentary proof may not be successful, if there will be difficulty retrieving the documents. (This currently seems to be the case to some degree, as institutions and students reported to us about documents other than the next form.) Where application items are inherently error prone, validation may not be much help, but changes in the items could be. Again, reducing institutional error may require completely new approaches.

Matters for congressional consideration

Basing corrective action on the kind of comprehensive approach that we suggest will require time and resources.

For Congress, as well, we suggest two underlying matters for consideration, rather than specific remedies for particular components of Pell grant error. First, the subcommittee could consider further guidance to the Department on the subject of the priority it should accord the problem of error. If the Department is to proceed in the manner we suggest, it could benefit greatly from concrete direction from the Congress.

During our review, Department officials, discussing their own work on Pell grant error, expressed strongly the usefulness of such guidance. Of most help would be working consensus on the relative balance between detailed examination of family circumstances (past and future) to ensure equity, and simplified examination to ensure efficiency. Accuracy and verifiability are much easier in the latter case. The Department possesses detailed data that can simualte the effects of changing the need analysis from the current relatively complex method to any alternative. Past discussion of an approach to preventing error by system redesign and simplification has been hampered by the joining of the proposals to suggested administration budget levels for student aid. We believe the issues of program design should be raised in the context of the error problem (and other program objectives), apart from budget questions. The occasion of reauthorization offers a useful opportunity to include the error problem in the overall discussion of the design of the Pell grant program.

Our second suggestion is that the subcommittee consider whether the data that are now available are sufficient for achieving accountability in the program. In this statement, and in our report, we have repeatedly highlighted the gaps in what is known about the error problem, its sources, the effects of past corrective actions, forecasts of likely impacts of future action, underlying conditions in the financial aid system into which corrective actions must fit, and alternative practices that may deserve to be tried in the search for remedies. Clarification by this subcommittee of the effort it feels is necessary to improve knowledge and understanding in these diverse domains would be a long way toward ensuring that the Department will move meaningfully and expeditiously in the effort to reduce error—all types of error—in the Pell grant program.

Mr. FORD. Thank you.

Mr. Bennett.

STATEMENT OF WILLIAM R. BENNETT 1984-85 PRESIDENT, NATIONAL ASSOCIATION OF STUDENT FINANCIAL AID ADMINISTRATORS, AND DIRECTOR OF FINANCIAL AID, CLEVELAND STATE UNIVERSITY, OHIO

Mr. BENNETT. Mr. Chairman and members of the subcommittee, my name is William R. Bennett, director of financial aid at Cleveland State University and the 1984-85 president of NASFAA. I am accompanied today by Dr. Dallas Martin, our executive director.

On behalf of NASFAA's over 3,100 member institutions, I appreciate the opportunity to appear before you to discuss the association's recommendations for reauthorizing the Pell Grant Program.

Since its inception in the Education Amendments of 1972, the Pell Grant Program has provided some 25 million awards to financially needy students enrolled in eligible institutions of postsecondary education.

As originally conceived, the Pell Grant Program was hailed as a national entitlement program primarily directed to students from low-income families. The program was designed to provide each qualified student with reasonable access to their approved postsecondary educational institution, the person selected by giving him or her a grant not to exceed 50 percent of the student's defined cost of attendance.

The Pell grant was to be a floor upon which all other forms of aid, regardless of the source, would be added. The grants were also to be portable in that a recipient could take the award to any approved school and be assured that it would be honored.

The program, at least in its initial conception, was also to be administered almost entirely by the Federal Government. Institutions themselves were to have little administrative responsibility and virtually no discretion in determining eligibility or the amount of the award. The student's eligibility was to be determined by a Federal processor and the amount of the award by a payment schedule developed annually by the Education Department.

The intent, therefore, was for the program to be a total Federal-student partnership with institutions only playing a minor coordinating role. The institutional involvement has since been expanded significantly, as evidenced by some of the current institutional requirements, as shown in appendix A.

Problems in the delivery of Pell grant funds to students have resulted primarily from the Education Department's inability to provide quick turnaround of funds. Initial allocations to institutions have generally been sufficient for disbursements to students in the first term but rarely provide enough funds for disbursements in subsequent terms.

Many institutions that enroll large numbers of low-income students often enroll significant numbers of these students after initial reauthorization levels have already been depleted.

Students undergoing validation or corrections to original data can not only have their SAR submitted until those processes are completed. Therefore, institutions have often had to advance their own funds to students and wait to be reimbursed by the Department. In many cases, this payment delay has resulted in institutions being forced to borrow hundreds of thousands of dollars from commercial lenders or use other institutional funds to pay these eligible students.

Another process that causes delays is that any changes or corrections to data on the SAR, including data which do not affect eligibility, such as address changes, have always had to be sent back through the Federal Government's Pell grant processor, thus slowing down the disbursement of funds to needy students.

Even when the institution has the correct information, it has to wait for weeks, and sometimes months, to receive another student aid report before paying the student, because regulations do not allow the payment of a Pell grant without a valid SAR.

This year, in an effort to improve the delivery system, the department instituted a new Pell grant delivery system, but, again, the process was predicated upon the use of a single Federal Pell grant processor with the emphasis on the informational needs of the Department rather than upon providing timely information and service to students and institutions.

Although NASFAA was consulted about the new system, it was clear that the attempt once again was to make the process more responsive for the Department and not necessarily for students and institutions.

The Department contended this was not the case and assured institutions the new system would be more responsive. To date, this has not occurred. Appendix B shows the actual time lines experienced by one institution that participates in the Pell grant tape exchange. This Tape Exchange Program is supposed to provide even shorter turnaround time, but, as the appendix shows, there are still significant delays in the funding system.

In an effort to achieve a more stable Pell grant delivery system, NASFAA has long supported the elimination of the Pell grant processor as a means of achieving a more stable delivery system.

While we believe the basic program structure is sound, the Pell grant delivery system has been unnecessarily costly, inefficient, less timely, and far less responsive than the systems provided by the private sector or those used by institutions for the delivery of the campus-based State and institutional dollars.

While Pell grant applicant data must be processed by the Department's central Pell grant processor to generate a SAR, 85 percent of the applications are submitted to the central processor by approved private sector multiple-data entry processors. In addition, on their own output documents, these MDE processors print the same Pell Grant aid index printed by the Government's central processor.

Given the capabilities of the MDE processors to calculate the Pell grant aid index and the cost associated with maintaining a separate Government processor, it seems only reasonable to decentralize the Pell Grant Program.

While we understand the Department needs a representative statistical sample of applicants and recipients to assist it in estimating program costs and to assess the program's management, it does not need a national database comprised of information on the individual students.

We believe the program could be decentralized and still continue to be administered with all of the entitlement aspects inherent in its original purpose with required processing standards mandated to ensure consistency for all students.

We also understand that a number of States use the information produced by the central processor to assist them in delivering their State grant programs, and therefore, if the program was decentralized, this information would have to be gathered from multiple sources rather than a single processor. This issue would obviously have to be addressed, but we believe practical solutions can be found and that this feature should not override the considerations and efficiencies that could be gained from eliminating the central processor.

Another advantage to eliminating the central processor is a reduction in the overall costs currently associated with administering the Pell Grant Program. While the Government's costs would not be eliminated under a decentralized system, they could be significantly reduced.

In addition to other procedures required for participation in the Pell Grant Program, the verification of family reported data has been an integral part of the administration of the program for many years.

While NASFAA has always encouraged and supported the concept of verification, we have long been concerned about the procedures imposed by the Department which have resulted from studies conducted to identify error in the program.

Rather than providing the stimulus for informed and creative dialog on improving the program, these so-called quality control studies and the resulting corrective actions have instead raised fundamental questions of interpretation and motive.

Clearly absent from the goals and purposes of the latest study is the assessment of timely and efficient delivery of aid to needy students, effective program operations, and analysis of administrative burdens on institutions.

While I will not elaborate on the findings publicized by the administration since they are contained in our written statement, I will say that we are disappointed and amazed with the manner in which they have been misused.

We do not feel that the research accurately reflects program error or justifies the means by which the Department proposes to correct the error which is through increased validation verification.

A key fact fundamental to the student aid process and to the study itself is timing. It is important to keep in mind that student aid applications are completed several months prior to the time the student actually enrolls. The fact that the quality control study looks at application data recorded on the initial application and compares it to data current at the time of the study raises questions about how error is construed.

For example, two data elements shown to have significant error in the study were the number in the applicant's household and the number in postsecondary education. The irony of these examples is that the Department has, since the program's inception, prohibited updating of these items once changes occur even when the institution is aware of the change. In other cases, awards were considered to be in error for reasons not justified by regulation or current accepted practices.

Our written statement outlines our concerns on these issues in much more detail, but I will say that we believe that the quality control studies passed up the opportunity to make a meaningful observation about a deficiency in the Federal system and has failed to contribute to program improvement.

Mr. Chairman, in addition to our concerns over the operation of the central processor and the Department's validation process, there are three other changes we have proposed to improve the Pell Grant Program.

First, we have recommended language to be added directing the Secretary to advance needed amounts of Pell grant funds to institu-

tions prior to the start of each payment period. This change is needed to prevent the Secretary from simply reimbursing institutions after the eligible students have been paid from institutional funds.

Second, we have suggested changing the date by which the Secretary must publish a payment schedule.

Third, we also believe that institutions, at their option, should be allowed to recalculate a student's Pell grant student aid index and to make payments to students without first sending changes back to the original processor.

In closing, let me note, Mr. Chairman, that NASFAA strongly believes in the Pell Grant Program and that it should be adequately funded to ensure equal educational opportunity to all eligible students.

Again, thank you for the opportunity to appear before you, and I'll be happy to respond to any questions you may have.

[The prepared statement of William R. Bennett follows:]

PREPARED STATEMENT OF WILLIAM R. BENNETT, DIRECTOR OF FINANCIAL AID, CLEVELAND STATE UNIVERSITY, ON BEHALF OF THE NATIONAL ASSOCIATION OF STUDENT FINANCIAL AID ADMINISTRATORS

Mr. Chairman, Members of the Subcommittee, my name is William R. Bennett. I am Director of Financial Aid at Cleveland State University, Cleveland, Ohio and 1984-85 President of NASFAA. I am accompanied today by Dr. Dallas Martin, Executive Director of NASFAA. On behalf of NASFAA's over 3,100 member institutions, I appreciate the opportunity to appear before you to discuss the Association's recommendations for reauthorizing the Pell Grant Program.

Since its inception in the Education Amendments of 1972, the Pell Grant Program, formerly known as the Basic Educational Opportunity Grant Program, has provided some twenty-five million awards to financially needy students enrolled in eligible institutions of postsecondary education. As originally conceived, the Pell Grant Program was hailed as a national entitlement program primarily directed to students from low-income families. The program was designed to provide each qualified student with reasonable access to the approved postsecondary educational institution the person selected by giving him or her a grant, not to exceed 50% of the student's defined cost of attendance. The Pell Grant was to be a "floor" upon which all other forms of aid, regardless of the soruce, would be added. The grants were also to be "portable" in that a recipient could take the award to any approved school and be assured that it would be honored.

The program, at least in its initial conception, was also to be administered almost entirely by the Federal government. Institutions themselves were to have little administrative responsibility and virtually no discretion in determining eligibility, or the amount of the award. Rather, the student's eligibility was to be determined by a Federal processor and the amount of the award by a payment schedule developed annually by the Education Department. The payment schedule was based on a set of family contribution schedules approved by Congress, which in turn produced an eligibility index for each student that could be used to determine the student's grant based on the selected school's defined cost of attendance.

The intent, therefore, was for the program to be a total Federal-student partnership with institutions only playing a minor, coordinating role. In the first year, since the program was going to be a "limited partnership," institutions were not initially involved. In fact, the limited partnership was designed in such a way that the Federal government was to provide the applications only to high schools. This presented no problem since the program was being limited to incoming freshmen. The applications, however, arrived at the high schools in August for the class that graduated the previous June. Thus began institutional involvement in a much more expanded partnership. Some of the current institutional requirements are shown as Appendix A.

Looking back today, twelve years after the program became operational, we can say without any hesitation that most of the purposes of the Pell Grant Program have been achieved. While the program has been modified in recent years to include students from moderate and middle-income families, program statistics clearly show

that three fourths of the Pell Grant recipients have family incomes of $15,000 or less.

The portability feature of the program has provided hundreds of thousands of students with a degree of choice in selecting a postsecondary school best suited to their academic needs. The "floor" aspect has helped to provide a foundation upon which other loan, work, or grant assistance could be added, thus helping to insure more reasonable financial aid packages for millions of needy students. But in spite of these many virtues, the program still has a number of aspects that make it overly complex, inefficient, and administratively costly and burdensome.

From the program's origin, it was established that in order to receive payment of an award, the student was to present to the institution an official notice of his or her eligibility, as determined by the Department of Education; thus the Student Aid Report (SAR), the output document printed by the Federal government's central processor and sent directly to the student became both an award notification and a payment voucher. In the early days of the program, Education Department officials felt that to insure the entitlement and portability nature of the program, the SAR had to serve both functions. While there certainly was some logic in this approach, the fact is the SAR has never really fulfilled either of its intended functions well.

While some will argue that the SAR serves as an essential notification device to the student, in fact it only partially fulfills this purpose, since it does not inform the individual student of his or her award amount. Rather the SAR only tells students whether or not they are eligible for a Pell grant. Given the differences in the costs of attandance at various schools and the percentage of cost limitations contained in the program, the Department can not determine in advance the expected amount of a student's Pell Grant award, since it does not know with any certainty the school the student will be attending. Nor does it know the student's enrollment status (full time, three-quarter time, or half time). Therefore, the SAR serves a limited function as an eligibility notice giving the student an idea of the range of the award possibilities. In fact, the student does not know his or her actual Pell Grant award amount for the year until he or she receives an award letter from the institution. This is not to say the SAR does not have some value as an award notification document, and may provide an individual student with an approximate award amount, but it certainly differs from the community's idea of an "award notification document" that actually lists the specific type(s) and amount(s) of aid a student will receive. In fact, the wording on the SAR sometimes confuses students by leading them to believe they will not be eligible for any form of financial aid, thus in some cases causing them to give up on completing the application process.

Originally, the SAR, in its payment voucher function, was conceived as a reporting document used to confirm the student's actual enrollment and cost of attendance at the selected school. While the process of submitting SARs to the Education Department for this purpose was envisioned as the means by which institutions would obtain funds for payments to eligible students on a timely basis, this procedure has rarely worked efficiently or effectively. The Department has provided institutions an allocation for Pell Grant payments to students based in part on funds expended in the prior year. This initial allocation, sent to institutions at th beginning of the award period in July, for years could only be increased with the submission of individual Student Aid Reports on a quarterly basis. While a provision did exist for the submission of an ad hoc report designed to allow institutions to request funding between quarterly reports, the processing of such reports was equally inefficient. In fact for several years, institutions were only granted the use of one such ad hoc report annually.

Problems in the delivery of Pell Grant funds to students resulted primarily from the Education Department's inability to provide quick turnaround of funds based on SARs submitted, and provided little or no recourse for institutions and eligible students whose SARs were—for a variety of reasons—not ready for submission to the Department. For example, the initial allocation to institutions was generally sufficient for disbursements to students in the first term, but rarely provided enough funds for disbursements in subsequent terms. Institutions whose enrollment patterns are not typical, i.e. community colleges, often enroll significant numbers of students after initial authorization levels have already been depleted. Students undergoing validation or corrections to original data could not have their SARs submitted until those processes were completed. These circumstances have not enabled institutions to submit all the SARs to the department in a timeframe that would allow the Department to then increase the institution's authorization of funds.

Therefore, institutions have often had to advance their own funds to students and wait to be reimbursed by the Department. In many cases, this payment delay resulted in institutions being forced to borrow hundreds of thousands of dollars from com-

mercial lenders or use other institutional funds to pay these eligible students. This process was complicated in several years by the Department's failure to provide timely administrative procedures and payment schedules to institutions. To illustrate this point, in the fall of 1982, Iowa State University advanced $4.5 million in short term loans to students to pay fees. This would have been unnecessary if the Pell Grant validation procedures had been disseminated in a timely manner and the Pell Grant Payment Schedule had been on time. This clearly shows the impact on one institution and its students when funds are delayed and procedures are not in place to provide for timely collection of information from students.

Another process that causes delays is that any changes or corrections to data on the SAR, including data which do not affect eligibility such as address changes, have always had to be sent back through the Federal government's Pell Grant processor thus slowing down the disbursement of funds to needy students. Even after the institution had the correct information, it had to wait for the corrected SAR to wind its way through the Department's corrections cycle with the central processor before payment could be made to the student because regulations do not allow the payment of a Pell Grant without a valid SAR.

In an effort to untangle and uncomplicate this inefficient delivery system, the Department, beginning with the 1984-85 academic year, instituted a new Pell Grant delivery system. Again the process was predicated upon the use of a single Federal Pell Grant processor with the emphasis on the informational needs of the Department rather than upon providing timely information and service to students and institutions.

During the deliberations about this new process, NASFAA offered advice to the Education Department and made suggestions regarding its implementation. Our concern was that any changes should result in major improvements to the Pell Grant system flow and the Department's ability to deliver the dollars to eligible students in a timely manner. We questioned the need for continuation of the Pell Grant processor and other procedures and processes in the system, and urged the Department to consider a phase-in of any system changes or modifications. NASFAA was convinced that major changes for 1984-85 should have been pilot tested prior to national implementation, especially since much of the new system would not be finalized until after the processing for this year had begun. We suggested that at least a two-year phase-in would be necessary to achieve a smooth transition. It also became clear that the intent once again was to make the process more responsive for the Department and not necessarily for students and institutions. Still the Department contended this was not the case and assured institutions the new system would be more responsive. To date this has not occurred as evidenced by the information in Appendix B which shows the actual timelines experienced by one institution that participates in the Pell Grant tape exchange. The tape exchange program is supposed to provide even shorter turnaround time; still it shows significant delays in the funding system.

In an effort to achieve a more stable Pell Grant delivery system, NASFAA has long supported the elimination of the Pell Grant processor. The Pell Grant central processing and delivery system has been criticized as being complex, burdened with unnecessary paperwork, frought with delays, and excessive and duplicative administrative costs. While the basic program structure is sound, and the entitlement and portability features have enabled countless students to obtain access to postsecondary education, the Pell Grant delivery system has been unnecessarily costly, inefficient, less timely, and far less responsive than the systems provided by the private sector or those used by institutions for the delivery of campus-based, state, and institutional dollars.

Since the law does not mandate a central Pell Grant processor or the requirements of a delivery system, NASFAA has tried to work with the Education Department to achieve a more workable and efficient system. While little else has been accomplished to date, we have apparently captured the attention of some Department personnel as evidenced by a statement extracted from one of the Department's internal evaluation reports which notes, "the federal role has intruded into the field of program operations which has impeded the smooth and timely delivery of aid to students." The report goes on to surmise the various features of delivering Pell Grant aid are costly and less timely than those delivered by the private sector, that institutions are in the best position to direct the money to the student, and that private organizations are capable of determining ability to pay.

In fact while Pell Grant applicant data must be processed by the Department's central Pell Grant processor to generate a SAR, eight-five percent (85%) of the applications are submitted to the central processor by approved private sector, Multiple Data Entry processors. In addition, on their own output documents, these MDE

processors print the same Pell Grant Aid Index printed by the government's central processor. This gives institutions the ability to calculate an estimated Pell Grant and notify the student of the various aid amounts in the aid package without having to wait for the Federal government to process the SAR. Given the capability of the MDE processors to calculate the Pell Grant Aid Index, and the costs associated with maintaining a separate government processor, it seems only reasonable to decentralize the Pell Grant program. While we understand the Department needs a representative statistical sample of applicants and recipients to assist it in estimating program costs and to assess the program's management, it does not need a national data base comprised of information on all individual students. Such a data base has in fact proven to be ineffective, given the $800 million Pell Grant shortfall currently facing the Department. We believe the program could be decentralized and still continue to be administered with all of the entitlement aspects inherent in its original purpose with required processing standards mandated to ensure consistency for all students.

We recognize that a number of states use the information produced by the central processor to assist them in delivering their state grant programs. Therefore if the program was decentralized, this information would have to be gathered from multiple sources rather than a single processor. While this is a matter that will need to be addressed, we believe practical solutions can be found and this feature should not override the considerations and efficiencies that could be gained from eliminating the central processor.

Another advantage to eliminating the central processor is a reduction in the overall costs currently associated with administering the Pell Grant Program. While it has been difficult for us to obtain precise administrative cost data on all phases of the current Pell Grant system without filing a Freedom of Information request, we believe that the base price paid to the contractor is currently $10 million per year. This amount, however, does not include additional costs paid to the contractor to make program modifications or cost overruns. In several years, these charges have been substantial, adding several million dollars more to the overall contract. In addition to these expenses, approximately $5 million annually is paid to the four Multiple Data Entry processors to reimburse them for their costs in processing forms and transmitting that data to the government's central processor. The Department itself also incurs substantial costs to pay for printing and distribution of application forms, salary and expenses of Department personnel, and other work orders, subcontracts, and evaluation studies associated with the entire program. Recently, the Department has expended significant funds for other contractors to assist them in redesigning and developing a more efficient disbursement and Management Information System. Therefore, we would estimate that the Department's total annual expenditure for administering the Pell Grant System is at least between $20 and $25 million per year.

Given the magnitude of these costs, obviously, the Department had earnestly attempted to initiate changes that would reduce expenses. Unfortunately, most of the cut-backs to date have been in the form of reduced services to students, institutions and agencies. To illustrate this point, we have included as Appendix C of our testimony a copy of a "Dear Colleague" letter, which was sent to institutions in March of 1982, outlining the type of services that has been curtailed. The elimination of these so called "courtesy" services has enabled the Department to save some minimal amount of dollars, but we know that their demise has also imposed additional hardships upon students, reduced basic services, and eroded the effectiveness of the program. The question is, is it more important for the Department to have a corrected address for the applicant in their national data bank, or should the student have access to a toll-free line so he or she can check on the status of his or her application? Obviously, we know the Department's answer to this question.

Therefore, we believe the time has come to seriously reconsider the current system design and fold it back into the other ongoing delivery systems utilized for all the other student aid programs. While significant costs will still be incurred, the overall costs to the Department could probably be reduced by at least 40%. Perhaps then we would have the needed resources to begin serving the needs of the students.

In addition to other procedures required for participation in the Pell Grant Program, the verification of family reported data has been an integral part of the administration of the program for many years. The financial aid community has long been aware of the critical relationship between the accuracy of family-reported information and equity and fairness in the allocation of limited resources to eligible students. Methods and procedures for verifying information have been developed over the years by individual aid administrators and since 1978 have been mandated by the Education Department.

While NASFAA has always encouraged and supported the concept of verification, we have long been concerned about the procedures imposed by the Department. The Department's requirements, by and large, have resulted from studies conducted to identify "error" in the program. Rather than providing the stimulus for informed and creative dialogue on improving the program, these so-called Quality Control Studies and the resulting corrective actions have instead raised fundamental questions of interpretation and motive. By the Department's own admission, the purposes of the most recent Quality Control Study were to: 1) Identify program-wide error rates and determime types and proabable causes of error; 2) Propose corrective actions to further reduce program error; and 3) Measure changes in program error over time including the impact of increased validation activity of 1982-83. Clearly absent from the goals and purposes of the study was the assessment of timely and efficient delivery of the aid to needy students, effective program operations and analysis of administrative burdens on institutions.

Two primary problems may be noted with the type of research conducted in these Quality Control Studies. First, so much information is collected that one can say almost anything and find data to support the assertion.

The Department has chosen to emphasize the following findings: 6 out of 10 recipients received incorrect awards; 11.7% (300,000 students) should not have been given a grant. The absolute case error in the Pell Grant Program was $650 million in 1982-83.

Personnel within the Administration have also publicly cited these errors as evidence of fraud and abuse within the Pell Grant Program, and budget documents prepared by OMB include statements such as:

"Tighter application validation in Pell program, as recommended by the Grace Commission, would reduce the abuse documented in three nationwide surveys."

Unfortunately, this kind of misstatement of the findings does little to encourage constructive cooperation between the aid community and the Department to work to resolve systematic deficiencies inherent in the design and operation of the program. Clearly the studies show that there is error, but they provide no evidence that there is intentional fraud or abuse on the part of institutions or students.

On the other hand, findings in the Study less publicized by the Department are:

Net institutional error decreased from 1981 to 1983 by 49% and was only 4% in 1983.

85% of dependent student cases showed reported adjusted gross income amounts within $2.00 of the actual or "best" value amount and 90% were within allowable verification tolerance levels.

Nearly 95% of all students reported their dependent/independent status correctly.

The second basic problem with this type of study is that despite the statistical expertise of the design and the scientific and analytical approach to measuring validity, the exercise is heavily dependent upon and affected by subjective judgment. The most critical example of this is in the definition of error.

In the definition of "case error," five out of five factors to determine error are based on the contractor's "best value" opinion of a particular item. That is, a case error is theoretically determined by subtracting from the actual disbursement of a Pell Grant the adjusted expected disbursement as computed by the best value judgment for certain elements. The absolute case error resulting from such "best value" judgments is the astounding and much heralded $650 million figure.

The question is, however, does this method accurately reflect program error and thus justify the means by which the Department proposes to correct the error (increased validation/verification), or does it create an artificial measure of error for the sake of the Quality Control Study itself? If, in the contractor's view, something other than a "best value" for one of the key award elements was used, an "error" occurred. The Executive Summary to the Study states, "One additional point should be considered in interpreting the findings. Estimates of error are based on data collected during the spring. There is the possibility that institutions will correct some errors during the normal end of the year self-correction process." Given this statement, it must be assumed that no follow-up was conducted to determine whether these errors were in fact eliminated in the normal process.

Several examples of questionable "error" should be noted. The cost of attendance component can be used as one such example. The Study states:

"We have used best values for the complete academic year in determining cost of attendance and enrollment errors. There is, however, nothing in the current regulations requiring continued monitoring of cost of attendance and enrollment status by the institutions as long as their initial figures were reasonable at the time the expected disbursement was determined. We are using the approach indicated because

it is the only way to arrive at uniform and consistent estimates of error, even though some part of each error may not result in institutional liability."

If the institution followed the regulations, and is not viewed as being liable for an oversight, how can error be found? In other words, in this particular case, an error determination was possible for purposes of the Study even though the institution did not violate any rules or guidelines.

"The largest single source of student error was due to students whose reported dependency status was not the same as their verified dependency status."

These cases are referred to in the study as "dependency status switchers." Before going much further however, it is important to note that overall, only 5.5% of the applicants used the incorrect dependency status. In other works, the vast majority, 94.5% of all applicants, reported their dependency status accurately and had their award eligibility calculated properly. Although not addressed in the Quality Control Study itself, we were advised that the amount of error was determine by comparing the amount of the actual award to the amount of the recalculated award. Therefore in the case of independent students awarded a Pell Grant who were later determined to be dependent, one would assume that parental data was then collected and a new calculation performed to determine whether the student was eligible as a dependent student. The difference in the two award amounts (assuming the recalculated award was different) would constitute the amount of error. We in fact know this was not the case in all instances because the contractor was unable to obtain the necessary information from the parents of some of the students. Therefore it is unclear just how many of the 5.5% would have in fact been ineligible if the recalculations had been done in all cases.

"With the exception of no FAT [Financial Aid Transcript] on file, institution related error is nearly inconsequential in the Pell Grant Program."

The Financial Aid Transcript has no bearing on a student's award in any case. If as it is suggested, institutional practices on thier own do not in a substantive way increase the error rate in the Pell Grant program, then $321 million (the institutional error portion) of the $650 million total absolute error seems adequately accounted for.

A key fact, fundamental to the student aid process and to the Study itself, is timing. It is important to keep in mind that student aid applications are completed several months prior to the time the student actually enrolls. The fact that the Quality Control Study looks at applicant data recorded on the initial application and compares it to "best value" data, current at the time of the study (perhaps as much as a year having elapsed) raises further questions about how error is construed. For example, at the time of application an applicant's household size may have been 5; at the time of the Quality Control Study, for a variety of reasons, the family's household size may be 4 or 6. Similarly, the application item which requests the number in postsecondary education is one of the more problematic of these questions since the response is truly a function of timing. For example, a student indicates on her application filed in February that both she and her brother will be enrolled in postsecondary education in the following year. Both enroll in September, but the brother withdraws after the first term in December. The Quality Control Study is conducted in April and determines that only one family member is enrolled, thus the student's award is in error.

The irony of these examples relating to the number in the household and the number enrolled in postsecondary education is that the Department has, since the program's inception, prohibited updating of these items once changes occur even when the institution is aware of the change. While this is indeed a system shortfall, one is hard-pressed to understand how this can be considered an "error" in the sense of Federal dollars inappropriately awarded. They are awarded by the rules of a Federal system that applies one set of rules to students and institutions and another set of rules for Quality Control Studies. The fact that the Quality Control Study passes up the opportunity to make a meaningful observation about a deficiency in this Federal system and instead chooses to categorize such cases as "errors," which contribute to the $650 million total, exemplifies the arbitrary way in which error is defined and the failure of the Quality Control effort to contribute meaningfully to program improvement.

In other cases, awards were considered to be in "error" for reasons not justified by regulation or current accepted practices. For example, an award was considered in error if an original of the most current SAR was not on file—that is, a copy of the SAR was unacceptable. There is no regulatory reference to justify this condition as an error.

The subject of validation is one which drew specific attention in this Quality Control Study, since a purpose of the research was to examine changes over time that

evolved from past Quality Control efforts and corrective actions. After a review of the various validation procedures required by the Department over the last few years, the Study concludes that a very positive impact has been made, especially in securing more accurate adjusted gross income levels, as a result of requiring the Federal Income Tax Return Form 1040 as part of the process. The use of the 1040 as a means of verifying such application elements as adjusted gross income and Federal taxes paid is widely recognized as a viable means of insuring that student eligibility is determined on the basis of the best information. However, the Study observes that validation has had little impact on such areas as dependency status, other non-taxable income, household size, number in postsecondary education, and home equity. This comes as no surprise for the following reasons:

The 1040 is inadequate in providing comparable data to check application items other than adjusted gross income and Federal taxes paid.

No other efficient and effective means exists for verifying the legitimacy of the applicant's original responses to other items on the application.

Even if expanded verification were conducted, the question of timing remains a central problem. Is the family reviewed on the basis of their status at the time of application, at the time aid is being received, or one year after the fact?

It is in this aspect of the discussion on validation that the most fundamental questions about the student aid system are raised. To simplify, it may boil down to two basic choices:

Construct an eligibility system that emphasizes the collection of only data elements that are readily verifiable. Such a system might have a zero error rate by Quality Standards standards, but what assurances could be given that those who need and deserve limited funds are getting them?

Construct a system that collects the best information possible in order to gauge a family's relative financial strengths and weaknesses; ask questions that, while they may be unverifiable, can provide the basis for a reasonable assessment of financial need; and accept the fact that even by the most arbitrarily defined error conditions, 85% of parents provide adjusted gross income information that is accurate within $2.00 and 95% of all students report their dependency status accurately.

In summary on our comments on validation, it seems appropriate to point out one more significant fact. Today is June 27th. Pell Grant processing began in late February and some 3+ million applications have been processed to date. The Department decided, based primarily on the Quality Control Study, to flag at least 50% of the Pell Grant applicants for validation, but institutions have yet to receive the Department's validation handbook outlining the required procedures for the 1985–86 academic year which begins on July 1. Institutions have been making tentative Pell Grant awards and verifying the data for four months without the benefit of the Department's validation requirements.

Mr. Chairman, in addition to our concerns over the operation of the central processor and the Department's validation process, there are three other changes we have proposed to improve the Pell Grant Program.

First, in section 411(a)(1)(A), we have recommended language to be added directing the Secretary to advance needed amounts of Pell Grant funds to institutions prior to the start of each payment period. This change is needed to prevent the Secretary from simply reimbursing institutions after the eligible students have been paid from institutional funds. This recommendation was prompted in part because the Secretary promulgated final regulations on October 6, 1983, without the benefit of public comment, which changed the procedure for paying institutions. Previous regulations had specified that the Secretary would advance funds to institutions based on his or her estimate of the institution's need for funds to pay Pell Grants to students. The October 6 regulations allow the Secretary to reimburse institutions for Pell Grant awards already paid to eligible students, thus requiring many institutions to incur major financial liability to advance payments to students who qualify for Federal dollars. The Pell Grant Program was enacted to assist financially needy students in obtaining needed resources to pursue a postsecondary education. NASFAA does not believe that Congress intended for institutions to have to incur financial liability to ensure that there students receive their payments on a timely basis. We realize the Department needs to have a system in place to ensure that Federal funds are not casually given to institutions on the basis of an unfounded or unreasonable institutional request. We do however believe that the Department of Education is obligated to have a process to ensure that adequate amounts of needed funds, to the extent practical, are readily available to institutions to make timely advancements to eligible students.

Second, in section 411(a)(2)(A)(ii), the statute currently requires the Secretary to publish, not later than January 1, 1981, October 1, 1981, and on October 1 of each

succeeding year, a schedule of reductions for Pell Grant awards to recipients enrolled less than full-time. These dates, enacted in the 1980 Amendements and changed from the previous date of February 1, were intended to provide adequate lead time for estimating student awards for the following academic year. The October 1 date was tied to the date by which fiscal year appropriations must be determined, and since the Pell Grant Program is forward funded, this date was thought to be realistic. In reality, this date has proven not to be realistic because the appropriation process has, in several years, required the use of continuing resolutions, thereby prohibiting the Secretary from knowing the amount to be appropriated for the Pell Grant Program. Since it is both confusing and expensive to publish tentative payment schedules before the appropriation is finalized, we have proposed that the date be changed.

In addition, it is equally important for the published schedules to include those for recipients enrolled full-time. NASFAA's suggested amendment establishes February 1 as the date by which the Secretary must publish both the payment schedule for recipients enrolled full-time and the schedule of reductions for recipients enrolled less than full-time. This change will hopefully provide a more realistic date by which appropriations will be finalized, and the final schedules can be published.

Third, while NASFAA has proposed to decentralize the Pell Grant Program operations, we also believe that institutions, at their option should be allowed to recalculate a student's Pell Grant Student Aid Index and to make payments to students without first sending changes back to the original processor. As previously noted, institutions are currently prohibited from making such changes within the Pell Grant Program, even though they are allowed to do so under the campus-based programs.

As such, unnecessary delays are caused which only inconvenience the institution and the student. Most institutions have the capability of recalculating the Student Aid Index and would be happy to assume the responsibility in order to be able to pay the student in a more timely manner. Further, we would purpose that any changes made could subsequently be reviewed or audited by the Department, as is the case in the other programs. Therefore, we have recommended a statutory change to section 411(b)(3)(A) which would allow the institutions to perform such recalculations.

In closing, let me note, Mr. chairman, that NASFAA strongly believes in the Pell Grant Program and that it should be adequately funded to ensure equal educational opportunity to all eligible students. Earlier this week, this Subcommittee heard testimony stressing the importance of Pell Grants to various minority groups. Let me say that the Pell Grant Program is critical to all groups of students, in every sector and in every ethnic group. The fundamental purposes of the program are sound and it clearly has benefited millions of our Nation's citizens. However, we firmly believe that it can be administered in a more cost-effective and efficient manner which in turn will benefit all parties.

Again, thank you for the opportunity to appear before you and I will be happy to respond to any questions you may have.

Appendix A

Each institution which participates in the Pell Grant Program is required to conform to Department of Education rules and regulations regarding the administration of the program. The following list outlines some of the institutional requirements.

1. Advertise and disseminate Pell Grant forms to students who are potential applicants to the Program;
2. Provide students with individualized counseling regarding the Pell Grant Program and all phases of its operation;
3. Maintain on-going contact with students to secure their Student Aid Reports (SARs);
4. Maintain individual student records on each individual student receiving Pell Grant funds;
5. Check eligibility criteria on each individual student prior to disbursing Pell Grant funds;
6. Verify enrollment status on each individual student prior to disbursing Pell Grant funds;
7. Review student data on each individual Student Aid Report (SAR) and counsel all students on incorrect or incomplete data prior to approving eligibility;
8. Make individual award calculations regarding the student's status and actual cost of attendance prior to disbursing Pell Grant funds;

9. Complete the appropriate section of each individual student's SAR or submit computer tapes according to specified formats and forward to the Department of Education with appropriate Progress report (Progress Reports submitted three times annually);

10. Coordinate and package Pell Grant funds with all other student assistance funds;

11. Calculate appropriate refunds for the student who withdraws or changes enrollment status during the academic perod, and re-submit corrected information via the student's SAR;

12. Maintain appropriate fiscal records for all Pell Grant recipients;

13. Prepare cumulative data on Pell Grant disbursements for the annual FISAPP form;

14. Review all Pell Grant data and reconcile discrepant information;

15. Perform validation on selected applications, including requesting appropriate documentation, reviewing documentation in conjunction with the individual student's SAR, and requesting re-submission of the SAR for corrections, if appropriate;

16. Reconcile all student payment data at the completion of each fiscal year with Department of Education records.

In addition to the sixteen listed steps, the 1984-85 Pell Grant Delivery System required each institution to do the following:

1. Provide payment information on each eligible student by completing the appropriate grids on each SAR Payment Document, using a No. 2 lead pencil (unless the institution normally submits this information via computer tape);

2. Submit any changes to individual students' payment information using the same process;

3. Reconcile each group of SAR Payment Documents upon return from the Department of Education.

Appendix B

This chart describes actual timelines experienced by an institution participating in the Pell Grant Program under Recipient Data Exchange (RDE). RDE, more commonly called "tape exchange," is a process by which eligible institutions may transmit Pell Grant data to the Department of Education via tape rather than by submitting hard copy documents. The information submitted is processed by the Department, output tapes are returned to the institution, and the institution's authorization is adjusted appropriately via a revised Statement of Account. The Statement of Account is the document which permits an institution to draw down funds to cover Pell Grant payments to students. Theoretically, institutions participating in RDE experience faster processing than those institutions not participating. Most non-RDE institutions experience much slower timelines, thus further delaying Pell Grant payments to students.

This chart illustrates 1984-85 processing information for an actual institution participating in RDE.

Pell Grant tape mailed	Statement of account received by institution
Oct. 10, 1984	Nov. 26, 1984
Nov. 21, 1984	Feb. 19, 1985
Jan. 8, 1985 [1]	Mar. 18, 1985
Mar. 20, 1985	Apr. 8, 1985
Apr. 30, 1985	May 17, 1985

[1] At this point, the institution had obligated all funds initially allocated by the Department of Education. Students eligible for a Pell Grant payment as of this date could not be paid until the institution received Department notification of an increased allocation, which occurred on March 8, 1985.

NOTE: NASFAA is currently evaluating the 1984-85 Pell Grant Delivery System. The evaluation is being conducted by one of NASFAA's committees. Financial aid administrators at each of six schools are monitoring a group of thirty (30) students through the entire Pell Grant process, from application completion to final payment. We expect the evaluation results to be available later this summer. NASFAA will provide the findings of this evaluation to members of this Subcommittee for review and inclusion as part of the record.

APPENDIX C

U.S. DEPARTMENT OF EDUCATION,
OFFICE OF THE ASSISTANT SECRETARY
FOR POSTSECONDARY EDUCATION,
Washington, DC, April 7, 1982.

DEAR COLLEAGUE: On March 17 we began the 1982-83 Pell Grant processing cycle. We will again be striving to provide students and the financial aid community the information and services needed to operate the Pell Grant program. We must advise you, however, that because of severe budget constraints, the department is making several changes to the current processing system which will reduce some services previously provided to students, institutions, and state agencies.

The Department is taking these actions because of the absolute necessity to maintain fiscal restraints on cost growth in our contract activities. Determining which services could be eliminated and/or curtailed has been difficult. In many instances, the changes which are described in more detail below involve modifying a current procedure to make it more efficient, such as sending rosters only to institutions which have requested them, or eliminating certain "courtesy" services, such as returning estraneous materials which students frequently include with their applications rather than simply disposing of them at the processing center.

Specifically, the changes to be made are in the following areas: extended turnaround time; telephone service; sixty-day reminder Student Aid Report (SAR); state agency and institution rosters; extraneous materials; and postage on return postcards.

Extended turnaround time.—During the late spring and early summer of each processing cycle, the volume of applications and corrections to be processed in much higher than any other time of year. In order to reach contractually mandated turnaround times, the contractor has had to hire additional staff and/or pay overtime wages, resulting in significant government incurred expenses. In an effort to avoid these costs, the Department has modified the contract requirements in order to maintain a "steady state" level of effort during the processing peak. The contractor will have longer to process the peak volume within the contract turnaround time specifications and will therefore not hire additional staff or pay overtime. This may mean applicants may experience slight delays in receiving their Student Aid Reports (SARs). However, normal processing turnaround time should be achieved by mid to late August for applications, and early September for corrections to SARs.

Telephone services.—The current toll-free information service will be eliminated and replaced by commercial service. The SDC tol-free numbers (800/423-6932, 800/352-8671 for callers in California, and 800/423-6872 for callers in Alaska and Hawaii) will be disconnected on or about June 1, 1982. However, operators will be available at the commercial number 213/820-2800 to answer questions on application processing.

We realize that this toll-free service has been helpful to many students and institutions. Indeed, our central processing contractor has ansered over 1 million calls since February 1981. Nonetheless, the costs associated with the toll-free lines make it necessary to convert to commercial lines. We should note however, that the same information services will continue to be available except, of course, that telephone calls to our processing center will be paid for by the caller.

Sixty day reminder SAR.—Student Aid Reports (SARs) will no longer automatically be sent to students who have not responded to the rejected SAR which they received sixty days earlier. Currently, these students are reminded that they must provide additional information before and aid index can be calculated for them.

State agency and institution rosters.—The number of times which rosters will be produced during the 1982-83 processing cycle has been reduced to 18 productions rather than the 26 productions we have offered in the past. Information packets will be mailed shortly to all state agencies and institutions. Each information packet includes a request form to be completed by the institution or state agency. Rosters (paper or tape) will not be sent to state agencies or institutions which have not submitted a request form after the first four or five scheduled productions. Formerly, all institutions automatically received paper rosters. Obviously, in order for us to achieve the savings which enactment of this measure is projected to achieve, institutions and state agencies who do not absolutely require and, for that matter, make use of these products should not request continuation of this service.

Extraneous materials.—In the application instructions, students are told not to send additional materials with their applications. Nonetheless, approximately 30 percent of the applications and corrected SARs received at the processing contractor have some type of "extraneous" material included with them. In the past, the con-

tractor has returned the material to the student. We have instructed our processing contractor to shred any material not used to process the form. Only documents used in making a judgment related to processing will be kept. No documents will be returned to the student.

Postage on return postcards.—In the past, the contractor put postage on return postcards sent by students with their applications, although students are instructed to affix a stamp on the postcard before enclosing it with their application. From the time of this modification in our procedures, those who include the postcard without the stamp will not have the postcard returned to them.

We are sure we can count on your support in our efforts to save tax dollars in the operation of the Pell Grant processing center.

Sincerely,

EDWARD M. ELMENDORF,
Deputy Assistant Secretary for Student Financial Assistance.

JAMES W. MOORE,
Director, Student Financial Assistance Programs.

Mr. FORD. Thank you.

Mr. Heffron.

STATEMENT OF MARK HEFFRON, ASSISTANT VICE PRESIDENT, FINANCIAL AID SERVICES, AMERICAN COLLEGE TESTING PROGRAM

Mr. HEFFRON. Thank you, Mr. Chairman.

My name is Mark Heffron. I'm assistant vice president for financial aid services for the American College Testing Program. ACT is a nonprofit educational services corporation located in Iowa City, Iowa. The financial aid services section which I run processes need analysis applications for about a million students a year, provides financial aid training and administrative services for about 4,000 postsecondary institutions, State agencies, and private scholarship organizations, and provides financial aid information and services to students and high schools.

I appreciate the opportunity to appear before you.

My testimony concerns the financial aid delivery system, with an emphasis on the processing aspects of it. The current financial aid delivery system works surprisingly well, considering the frequency with which rules and procedures change and the delays that we all often experience. Each year, somehow, millions of students receive the money they need when they need it.

Substantial improvements have been made in recent years to simplify the process for students. In 1978, we began the process of multiple-data entry, or MDE.

Under MDE, a student no longer must complete a separate application form to apply for a Pell grant. Rather, the appropriate information from the student's need analysis form may be sent from an MDE processor to the Pell grant central processor to serve as a Pell grant application.

ACT, the College Scholarship Service, and the Pennsylvania Higher Education Assistance Agency are the current MDE processors.

Concurrent with the advent of MDE, ACT, and CSS worked with State scholarship agencies to also incorporate their information into the need analysis forms. As a result, the majority of students now may apply for a Pell grant for campus-based Federal aid and for State institutional and private aid by filling out one single form.

Currently, ACT is involved in a pilot of a service that would add the Guaranteed Student Loan Program application to the single coordinated flow.

Although improvements have been made, much remains to be done. The current delivery system involves a great deal of redundant effort. Most of the activities of the Pell grant central processor duplicate those already performed by the MDE agencies. Student data are entered and edited by the MDE agencies then reentered and reedited by the central processor. Both the MDE agencies and the central processor calculate the Pell grant student aid index and the uniform methodology expected family contribution. Both send reports to students. Both transmit information to institutions and State agencies.

Some of the features of the current system defy logic, particularly from the student's perspective. Although original application information that students send to an MDE agency may be forwarded on to the Pell grant processor, corrections to that information may not. A student must send corrections separately to the MDE agency and to the central processor.

Although an institution may have been notified of the student's official Pell grant eligibility by the central processor and unofficially by one of the MDE agencies, the student must also submit his or her student aid report containing the same Pell grant information to the institution before the student's Pell grant can be paid.

The workload of institutions has increased in complying with the regulations that contribute little or nothing to the process. The Government requires institutions to implement complex procedures to check data validity. However, it is not known why those errors occurred in the first place, and therefore there's no assurance that these procedures will correct them.

Institutions typically are not notified of the validation procedures required until the processing cycle is well under way, causing them to backlog work that should have been done earlier.

The problems cited are but a few examples of duplicate effort, illogical practices, and unnecessary paper shuffling. I'd like to describe a few characteristics that I believe should be incorporated in an improved delivery process.

First, the process must be and appear logical and be as simple as possible so that students can understand it and complete it. This isn't to say that students can't deal with some complexity, but they shouldn't have to deal with unnecessary complexity.

Second, students should be exposed to consideration for as many sources of aid as possible, whether they are initially aware of those sources or not. We have evidence that many students apply only for a guaranteed student loan when they are also eligible for a Pell grant and other funds, but, because of erroneous assumptions about eligibility, they select themselves out of consideration for these funds.

Students and parents must receive clear and timely information to promote good planning and informed decisions.

The mechanics of the process must operate quickly to relieve student and parental anxiety and to leave them time for planning.

The process must be efficient and economical for institutions, States, and the Federal Government to administer.

The integrity of the programs must be maintained. Financial aid decisions must be made based on accurate information.

Efforts should be focused on eliminating errors before they occur rather than detecting them after the fact. To date, the Government's quality control studies have focused on the fiscal impact of errors, not on determining the cause of the error so corrective action can be taken.

We have to remember that there are numerous parties involved in the financial aid delivery system—students and their parents, institutions, States, the Federal Government, and private aid donors.

The system we have is unique in that funds from Federal, State, institutional, and private sources, each with its unique eligibility criteria, may be requested and awarded in a single coordinated process. Each of these parties contributes to the process; each has legitimate needs. The process should recognize and serve these needs.

There are two obvious solutions for reducing redundancy in the processing system. One could centralize all functions in a single processor, or one could decentralize Pell grant processing and incorporate its functions in the existing private and State systems. I would suggest that the latter option poses the greatest promise for improving the aid delivery process.

The private need analysis organizations, such as ACT, offer a wide range of services to students, high schools, postsecondary institutions, and State agencies that are not available through the central processor.

Because we operate in a competitive environment, we must constantly evaluate, improve, and expand our services to meet the needs of the marketplace. Nearly all innovations in financial aid delivery have originated in the private services.

We must provide excellent service; if we don't, our clients have an alternative; and it's because of the services that we and our competitors provide with great consistency, year after year, that the majority of institutions and State agencies choose to use one of our forms.

The Department of Education restricts the services of the central processor, on the other hand, to those minimally required for Government administration of the Pell Program. Services are added or deleted without full consideration of their impact on students, institutions, or agencies.

For budgetary reasons, the Government has sharply reduced its training activities and its information services to students in recent years. Understandably, the Department has shown no inclination to support the wide range of needs of State grant and loan agencies for information dissemination and loan collection, nor are the services to institutions sufficient to support their administrative needs. Yet it's the accommodation of all of these needs in the private agency services that has done so much to improve the delivery process.

Financial aid delivery services don't just consist of processing forms. They consist of supporting the entire process, from informing the student that financial aid exists to the time that the student receives funds to pay his educational bills.

The functions of the Pell grant central processor can be incorporated into the systems of the MDE agencies relatively easily. It would be far more difficult to incorporate the services of these agencies into the Federal system, and, with a single processor, there would not be the competitive impetus to respond to student, institutional, and State agency needs, and to improve the delivery system for all parties involved.

That concludes my testimony; I'd be happy to answer questions.

Mr. FORD. Would you like to have this addendum that you gave added to your testimony?

Mr. HEFFRON. Yes, sir, I would.

Mr. FORD. Without objection, the paper entitled "Is it time for decentralized Pell grant processing?" will be inserted immediately following the testimony of Mr. Heffron.

[The prepared statement of Mark Heffron follows:]

PREPARED STATEMENT OF MARK HEFFRON, ASSISTANT VICE PRESIDENT, FINANCIAL AID SERVICES, THE AMERICAN COLLEGE TESTING PROGRAM

My name is Mark Heffron and I am Assistant Vice President for Financial Aid Services for the American College Testing Program. ACT is a non-profit educational services corporation with national headquarters in Iowa City, Iowa. The Financial Aid Services section of ACT processes need analysis applications for about one million students per year, provides financial aid training and adminstrative services to about 4,000 postsecondary institutions, state agencies, and private scholarship organizations, and provides financial aid information and services to students and high schools. I appreciate the opportunity to appear before you today.

My testimony concerns the financial aid delivery system with an emphasis on the processing aspects of it. Appended to my testimony is an ACT position paper entitled, "Is it Time for Decentralized Pell Grant Processing?" I would like to summarize and expand upon some of the points made in that paper.

The current financial aid delivery system works surprisingly well considering the frequency with which rules and procedures change and the delays that are often experienced. Each year, millions of students receive the assistance they need, when they need it.

Substantial improvements have been made in simplifying the process for students in recent years. In 1978, a process called Multiple Data Entry, or MDE, was begun. Under MDE, a student no longer must complete a separate application form to apply for a Pell Grant. Rather, the appropriate information from the student's need analysis form may be sent from an MDE processor to the Pell Grant central processor to serve as a Pell Grant application. ACT, the College Scholarships Service, and the Pennsylvania Higher Education Assistance Authority are MDE processors. About 70% of all Pell Grant applications are submitted through these agencies.

Concurrent with the advent of Multiple Data Entry, ACT and CSS worked with state scholarship and grant agencies to incorporate state aid application information into the need analysis forms. As a result, the majority of students may now apply for a Pell Grant, for campus-based federal aid, and for state, institutional, and privately-funded aid by completing a single form. ACT is currently involved in a pilot project of a service that will add the Guaranteed Student Loan Program application to this single, coordinated application process.

Although improvements have been made, much remains to be done to simplify the process. The current delivery system involves a great deal of redundant effort. Most of the activities of the Pell Grant central processor duplicate those already performed by the MDE agencies. Student data are entered and edited by the MDE agencies, then re-entered and re-edited by the central processor. Both the MDE agencies and the central processor calculate the Pell Grant Student Aid Index and the Uniform Methodology expected family contribution. Both the MDE agencies and the central processor send reports to students. Both the MDE agencies and the central processor transmit information to institutions and state agencies.

Some features of the current system defy logic, particularly from the student's perspective. Although original application information sent to an MDE agency may be forwarded to the central processor, corrections to that information may not. The student must send corrections separately to the MDE agency *and* to the central processor. Although the institution may have been notified of the student's official

Pell Grant eligibility by the central processor (and unofficially by an MDE agency), the student must also submit his or her Student Aid Report, containing the same Pell Grant information, to the institution before the student's Pell Grant can be paid.

The workload of institutions is increased in complying with regulations that contribute little or nothing to the process. The government requires institutions to implement complex procedures to check data validity. The purpose of the validity checking is to detect and correct errors. However, it is not known why the errors that these procedures will correct them. Institutions typically are not notified of the validation procedures required until the processing cycle is well underway causing them to backlog work that should have been done earlier. Institutions must also wait for the central processor to send the applicant a Student Aid Report and for him or her to forward this report to the institution before a Pell Grant can be paid. The institution has probably known the extent of the student's eligibility long before this document is received, but it can not act upon this knowledge.

The problems cited above are but a few examples of duplicate effort, illogical practices, and unnecessary paper shuffling. There are many other instances of redundancy, illogic, and wasted effort. Several objectives should be considered when seeking ways to improve the delivery system. I will now describe a few characteristics of an improved delivery process.

1. The process must appear logical and be as simple as possible so that students and parents can understand and complete it. This is not to say that students can't deal with some complexity; they should not have to deal with unnecessary complexity.

2. Students should be exposed to consideration for as many sources of aid as possible whether or not they are initially aware of all sources. We have evidence that many students apply only for a Guaranteed Student Loan when they are also eligible for a Pell Grant and other funds. Because of erroneous assumptions about eligibility, they select themselves out of consideration for these funds.

3. Students and parents must receive clear and timely information to promote good planning and informed decisions. The mechanics of the process must operate quickly to relieve student and parental anxiety and leave them time for planning.

4. The process must be efficient and economical for institutions, states, and the federal government to administer, be responsive to their needs, and be subject to constant review and improvement. Excessive administrative costs dilute the funds available to assist students.

5. The integrity of all programs must be maintained. Financial aid decisions must be based on accurate information. Efforts should be focused on eliminating errors *before* they occur rather than detecting them after the fact. To date, the government's quality control studies have focused on the fiscal impact of errors, not on determining their cause so that effective corrective action can be taken.

There are numerous parties involved in the financial aid delivery system: students and their parents, institutions, states, the federal government, and private aid donors. The system is unique in that funds from federal, state, institutional, and private sources, each with its unique eligibility criteria, may be requested and awarded in a single, coordinated process. Each of these parties contributes to the process; each has legitimate needs. The process should recognize and serve these needs.

There are two obvious solutions to reducing the redundancy in the processing system. One could centralize all functions in a single processor, or one could decentralize Pell Grant processing and incorporate its functions in the existing private and state systems. I suggest that the latter option holds the greatest promise for improving the aid delivery process, correcting the problems described above, and reducing the cost to the government.

The private need analysis organizations offer a wide range of services to students, high schools, postsecondary institutions, and state agencies that are not available through the central processor. Because we operate in a competitive environment, we must constantly evaluate, improve, and expand our services to meet the needs of the marketplace. Nearly all innovations in financial aid delivery have originated in the private services. We must innovate and provide excellent service; our clients have an alternative if we do not. It is because of the services that we and our competitors provide, with great consistency, year after year, that the majority of institutions and state agencies choose to use one of our forms.

The Department of Education restricts the services of their central processor to those minimally required for government administration of the Pell Grant Program. Services are often added or deleted without full consideration of their impact on students, intitutions, or agencies. For budgetary reasons, the government has sharply reduced its training activities and its information services to students in recent

years. Understandably, the Department has shown no inclination to support the wide range of needs of state grant and loan agencies for information dissemination and data collection. Nor are the services to institutions sufficient to support their administrative needs. Yet it is the accommodation of all of these needs in the private agency services that has done so much to improve the delivery process. Financial aid delivery services do not just consist of processing forms. They consist of supporting the entire process from informing the student that financial aid exists to the time that the student receives funds to pay educational bills.

The functions of the Pell Grant central processor can be incorporated into the systems of the MDE agencies relatively easily. It would be far more difficult to incorporate the services of these agencies into the federal system. And, with a single processor, there would not be the competitive impetus to respond to student, institutional, and state agency needs, and to improve the delivery system for all of the parties involved.

Is It Time for Decentralized Pell Grant Processing?

The purpose of this paper is to consider the similiarities and differences between the functions of the government's Pell Grant central processor and the private need analysis services and suggest that a more responsive and efficient financial aid delivery system would result from decentralizing Pell Grant processing.

Background

When the Basic Educational Opportunity Grant (BEOG) Program was established in 1972, college financial aid administrators advocated the incorporation of BEOG eligibility determination into the existing processing procedures of the private need analysis services. Since institutional systems and procedures were designed to operate with the private services delivery systems, aid officers believed that the incorporation of BEOG processing into those systems would optimize the processing flow. For a variety of reasons, this suggestion was not accepted by the U.S. Office of Education, and a central federally-contracted processor was employed to process Basic (subsequently Pell) Grants and issue student eligibility reports.

From the outset of the BEOG program, there had been considerable overlap in the information collected on the Basic Grant application form and that collected on need analysis forms. After several years of Basic Grant Program operation, it became clear that the application process for students could be greatly simplified and the efficiency of the entire delivery system improved if the differences between these forms were resolved so that a single form could be used by students to apply for all forms of aid. This realization led to the implementation of the Multiple Data Entry (MDE) process in 1978.

Under MDE, students no longer have to complete a separate Pell Grant application. Rather, they may complete the MDE agency need analysis form required by the institution they plan to attend and have the relevant data transmitted by that agency to the Pell central processor. To make this operation possible, the MDE agencies have worked with the federal government to develop a common set of questions and instructions for collecting the information required for Pell application. Approximately 70% of all Pell Grant applicants now use one of the MDE forms as their means of application for Pell Grants.

Although MDE has simplified the application process for students, it addresses only the beginning of the process—initial data collection. Once the data are received by the Pell central processor, student records are edited a second time, having already been edited by the MDE processor. The records are then run through the entire processing system as they were before the MDE process began. If corrections are needed, students must send them both to the central Pell processor and to the MDE agency.

Despite its inefficiency, one of the advantages of the current system is that it provides a single database containing all Pell Grant applicant records. Since the start-up of Pell Grant processing is often delayed, the two-tier system also precludes delays in the Pell Grant system from necessarily causing a delay in the delivery of applicant information for other forms of aid. Available technology can assure that both of these advantages can be retained under a decentralized process, however. Processors can provide information to a central database for research and control purposes; Pell Grant data can be withheld initially until final decisions are reached.

The disadvantages of the current system are obvious. They include duplication of effort and expense in the application process, unnecessarily long processing turnaround, and an artificial separation of the Pell Grant delivery system from that

used for other forms of aid. Moreover, students are occasionally confused by the requirement that they deal with two processors for corrections when they submitted their original application information to one processor.

Central/private processor similarities and differences

The central processor duplicates much of the activity that is performed by the private need analysis services (ACT and CSS) and the state (Pennsylvania) that are MDE agencies.

Student data are entered and edited by the agencies and then re-entered (electronically) and re-edited by the central processor.

The agencies calculate an estimated Pell Grant Student Aid Index as a service to their clients; the central processor calculates the official Student Aid Index.

Both the private services and the central processor calculate a Uniform Methodology expected family contribution.

The private services send reports to the student and to the colleges listed by the student; the central processor sends a Student Aid Report to the student and will send occasional rosters to the college only if requested to do so.

The services provide student records to institutions in hard-copy format, on microfiche, on punch cards and magnetic tape, and, in some cases, by teletransmission; the central processor provides records to institutions on magnetic tape, though on a less frequent schedule than the private services.

The private need analysis services provide a wide variety of unique services that are not available through the central processor.

A student may use a private service form to apply concurrently for aid from several colleges, their state grant and loan agencies, and private scholarship organizations.

The processing turnaround time of the private services is routinely faster than that of the central processor.

The private services provide full student reports, in a format usable by the college, directly to the college.

The private services are heavily involved in the training of and dissemination of information to financial aid administrators and high school counselors, in the provision of financial aid information to millions of students, and in research relating to financial aid.

Because the private services operate in a competitive environment, they must constantly evaluate, improve, and expand their services to meet the demands of the marketplace. They are able to do so quickly and efficiently because the decisions are under their control. It is for this reason that the majority of institutions and state agencies have chosen to use the forms of the private services even though they and their applicants may have to pay for services which, if available from the central processor, are available at no direct charge to them.

Institutional concerns

For institutions, the single most difficult aspect of the Pell Grant delivery system is the requirment that each student deliver an official Student Aid Report (SAR) to the institution before his or her Pell Grant award can be paid. This requirement was incorported into the Pell Grant system to assure the portability of awards among eligible colleges. Portability is a very desirable feature of the Pell Grant Program even though it is used very infrequently by students. Most students already know what college they will attend by the time they complete their application. Data from the ACT Student Need Analysis Services, for example, indicate that 87% of the applicants list only one college on their form.

Another reason given for requiring submission of the SAR to the college by the student is the prevention of abuse in the program. It is reasoned that by requiring an official document, schools are precluded from "inventing" students and claiming Pell payments for them. Even on the surface this argument doesn't hold much credence. Before an institution can pay a Pell Grant award, it must verify the student's eligibility and enrollment status. It is liable to repay the funds if an error is made. And, because students can presently obtain duplicate SARS, it is possible for several colleges to claim payment for the same student without any knowledge on the part of the college that this has occurred. Regardless, the claims submitted by institutions for reimbursement are checked by the government to assure that the student is officially eligible for a Pell Grant and is not being overpaid in the aggregate.

In summary, there is no reason why the school should not be notified directly and officially that a student may be eligible for a Pell Grant. One possible reason for not doing so currently is that providing notification in the hardcopy format needed by most institutions would add significantly to the expense of the Pell processing

system. This problem notwithstanding, direct official notification to institutions of students' Pell Grant eligibility and elimination of the requirment to physically receive a SAR would significantly improve the Pell Grant delivery process. Both of these improvements could be effected easily and efficiently through the private services. Direct notification of Pell Grant eligibility could be added to the reports now sent to colleges by the private need analysis services. To retain the portability feature, the private service student reports could provide students with a "voucher" to be used if they need it.

Is a central Pell processor necessary?

There is no legal requirement that Pell Grant processing be done in a central facility. Except for the provision in the Education Amendments of 1980 that the Department of Education" . . . shall, to the extent practicable, enter into not less than three contracts with States, institutions of higher education, or private organizations for the purpose of processing (applications for federal student aid) . . .," the law is silent on the matter of processing.

One requirement that hinders the elimination of the central processor is a provision in the Education Amendments of 1980 that calls for the Department to allow students to apply for certain Title IV aid without paying a processing fee. The Application for Federal Student Aid, which is processed at no direct charge to the students, meets this requirement.

The Department of Education currently pays a central processor to process the federal form and the records transmitted from the MDE agencies, and to generate SARs and perform ancillary services. Many people have asked why the Department doesn't instead meet the "no-fee" provision of the law by paying private service's fees on behalf of students. That arrangement would allow state agencies, institutions, and students to avail themselves of the services of the private agencies at no direct cost to the student. Several reasons exist why such an arrangement might not be desirable.

First, it is unlikely that the federal government would (and probably improper that it should) pay any private contractor without also specifying the tasks to be performed. Yet, if the government precisely specifies the shape and content of private agencies' services (at it now does for the Pell contractor), it will eliminate the ability of these organizations to respond quickly and efficiently to the needs of students, institutions, and states, and to innovate and offer new services. If the same services are specified for all private processors, the advantages that result from competition are lost.

Second, the range of services offered by the private organizations is far greater than those the federal government may be willing or able to afford. For budgetary reasons, the government has sharply reduced its training activities and the information services available to students in recent years. Understandably, it has shown no inclination to support the wide range of needs of state grant and loan agencies for information dissemination and data collection. Yet it is in the inclusion of these needs in the private agency systems that has done so much to simplify the application process for students who want to apply for aid from all sources.

Some people have the mistaken impression that the process of applying for federal student aid is separate and distinct from applicaiton for aid from other sources—that "federal data" and "other data" can be uniquely identified. This simply is not true. The application process is designed to determine how much total assistance a student needs. It is not until after this need is determined that the sources of funds become a factor. Beyond the basic data required to drive the need analysis formulas, there are a wide variety of data that may be required to evaluate need, verify financial status, and tailor a financial aid package to a particular student. These data needs vary with the type of student body served, the type of institution, the types of funds available, etc.

A recurring concern is whether the processing fee charged by the private need analysis service acts as a barrier to families who are applying for financial aid. Although no evidence has been presented to suggest that it does, it is possible that the fee, when added to the problem of inadequate information about a process that is perceived by some parents and students as very complex, may add to the barriers facing some needy students. This problem should exist only for entering students; continuing students typically have an allowance in their financial aid package to pay the application fee for the following year. Although the number of students affected by the fee is probably quite small, some accommodation should and could be made. Currently, some institutions and support agencies (e.g., TRIO programs) pay the fee on behalf of such students; these arrangements are not universally available, however. At issue is whether the magnitude of the problem is such that eliminating

processing fees for all students (a very expensive alternative) is warranted, or whether a program should be established to address the specific needs of the limited group so affected.

It is occasionally suggested that institutions should pay the cost of processing their students' applications. To a great extent, they already do. The internal processing cost for an institution to handle a student's financial aid application is many times greater than the fee the student pays to a private service. A study prepared for the National Commission on Student Financial Assistance [1] found the average institutional administrative cost to range from $40 to $160 per aid recipient, with an average cost of $60. Given the fiscal situation of most institutions, it is unrealistic to expect them to make additional significant cash outlays to pay for need analysis processing. If they were to do so, they would likely have to raise the funds by increasing their charges to students.

What is the solution?

The nation's current financial aid delivery system is unique. It is difficult to find any other assistance program in the United States which allows a person to apply for federal, state, institutional, and private funds in a single coordinated process. It would be an unfortunate step backwards to once again segment the process into separate application procedures for each funding source. Although each funding source has the right and responsibility to assure that its money is properly spent, some compromises are necessary to assure that the intended beneficiary, the student, is well served and that, in the aggregate, financial aid funds are intelligently and equitably administered.

The private need analysis services now have the capability to act as a conduit for the coordinated delivery of all student aid funds. In some states, such as Pennsylvania, the state agency may also have this capability. With relatively minor modifications to their systems, these agencies can incorporate the functions of the Pell Grant central processor. As MDE contractors, their current systems, security mechanisms, and quality control procedures already meet or exceed government standards. The marginal cost of incorporating Pell Grant procedures will depend upon the timing and content of government requirements.

If the private services incorporate Pell delivery, who pays? All parties to the process will benefit from a coordianted delivery flow which allows competition to improve services—the federal government, states, institutions, and students. It seems reasonable that each should bear some portion of the cost.

The solution would appear to lie in a system that, to the extent possible, meets the needs of all parties involved; reduces duplicative effort and expense; contributes to a single consolidated flow for all financial aid funds; and allows competition to improve services. Each party to the process—the federal government, states, institutions, and students—should contribute its share to the administrative costs. Because of the decrease in duplication and increase in efficiency, the costs for each party should be reduced. The private sector must be given the flexibility to complete and to provide the services required for efficient aid delivery. It too must also be willing to adapt, where appropriate, to assure that the needs of all parties are served. The Pell central processor can be eliminated as can the requirement that a hardcopy SAR be obtained by the institution.

The fee barrier, where it exists, can be resolved by establishing means for identifying very low income families before they apply for aid and paying the fees for them. Although the need analysis process identifies such students, the identification comes too late—after the fee has been paid. The logical locus of such fee waivers therefore is in social sevices agencies, TRIO programs, perhaps high schools, and other organizations that regularly deal with student from low income families. The funding for such fee waivers can come either from an increase in the processing fees paid by other students or from a government subsidy. Such subsidy would prove far less costly to the government than the current approach.

It is not possible to design a financial aid delivery system which is optimum from everyone's perspective. However, it is possible to develop and administer an efficient and responsive delivery system that accommodates all sources of aid in a single application flow. To do so well requires that all parties be willing to make reasonable compromises. If they do, substantial improvements can be made in the current delivery system, improvements that will result in increased effectiveness and reduced costs.

---

[1] The National Commission on Student Financial Assistance, "Study of the Cost to Deliver Student Financial Aid on Campus"—Final Report. Prepared by Touche Ross & Co. (undated)

Mr. FORD. Mr. Strada.

STATEMENT OF DAVID STRADA, CHAIRMAN, STUDENT FINANCIAL AID ADMINISTRATION COMMITTEE, ASSOCIATION OF INDEPENDENT COLLEGES AND SCHOOLS

Mr. STRADA. Mr. Chairman and members of the subcommittee, I thank you for the opportunity to appear before you today.

My name is David Strada, and I'm here representing the Association of Independent Colleges and Schools.

I serve as the chairman of the Student Financial Aid Administration Committee of that association, and as a preface to my written remarks is a summary of information about AICS.

In my full-time capacity, I'm employed by the Katharine Gibbs School, which is a wholly owned subsidiary of McMillan, Inc. There are 11 Katharine Gibbs Schools that are located in the Northeast. They are in eight schools, and we teach students secretarial skills for jobs in that career area.

We enroll approximately 5,000 students per year, and, of those 5,000 students, 92 percent complete their programs, and of those who complete, 98 percent are placed in careers for which they are trained.

In my remarks today, I would like to do three things. First, I'd like to tell you something about the students who attend private career schools and thus the importance of the Pell grant to them; second, I'd like to highlight some of the problems in administration of the Pell Grant Program; and, third, present to you some of our proposals to solve those problems through reauthorization.

The primary reason why the Pell Grant Program works is because the grant aid is given to individuals and not institutions. Congress made a conscious decision in 1972 that most Federal aid to postsecondary education should be targeted to and through students. It has proven to be a program which is responsive to student needs and provides opportunity as its original name, basic educational opportunity grant, implies. It also does serve as the foundation of financial aid available to students at private career schools.

I'd like to reference some of the findings of a study that was conducted in 1983 by the National Commission on Student Financial Assistance that will shed some light on who the students are who attend private career schools.

First, nearly two-thirds of the students who attend those schools apply for financial assistance. Those students who are receiving financial aid, on the average, are 25 years of age or greater. Fifty-four percent of those receiving financial assistance are from minority groups. Fifty-six percent of those receiving financial assistance come from families with incomes below $6,000. Last, these institutions serve a very high proportion of independent students; 54 percent of those students attending private career schools and receiving aid are independent of parents.

The Pell Grant Program is an essential component of a student's ability to participate in postsecondary study. While loans made up 13 percent of all Federal assistance received by students attending private career schools in 1978, today loans make up 50 percent of

the financial aid available to those students. That's a very marked increase.

Moreover, a recent study shows that, while students attending private career schools are often the least advantaged financially, they also have the highest percentage of unmet need.

When one realizes that the Pell grant maximum award has not kept up with inflation during the past 10 years and that campus-based programs, SEOG, CWS, and NDSL, and State funding is limited for students attending private career schools, it is understandable that there would be a heavier reliance on loans.

These limitations are primarily the result of, one, the State allotment formulas for campus-based aid do not recognize fair share of unmet institutional need; two, statutory prohibition against the use of college work study funds on campus at private career schools; and, third, State restrictions on providing SSIG-funded State grant aid to students attending private career schools.

Next I'd like to highlight some of the problems that we see in the administration of the Pell Grant Program. They include, first of all, the magnitude and complexity of the application form in that it creates difficulties for those applicants unfamiliar with such a process.

Second, the slowness in receiving Pell grant institutional authorization award letters limits the ability of institutions to disburse Pell funds to students on a timely basis.

Third, the number and type of data elements required for both application and validation to determine eligibility is both burdensome and confusing.

Fourth, uncertainty as to Pell appropriations levels and therefore the maximum awards creates uncertainty in financial aid packaging and thus in decisionmaking.

At this time, we have yet to receive official notification of what the maximum award will be for 1985–86, and that award year begins this Monday, July 1. Many of the students attending private career schools will be in school this summer. The academic year begins for them at this time and not necessarily in September.

A recent GAO report on the Pell grant administration highlighted additional problems. This is not to be confused with the presentation made earlier today by GAO.

Although we strongly disagree with many of the GAO's assumptions, conclusions, and recommendations, the report has stimulated renewed efforts to improve program administration within AICS institutions.

Now I'd like to highlight some of the recommendations of our association.

First, we would like to see the maximum Pell grant be set at $3,000 for 1986-87. We are well aware, as was mentioned earlier today, that an increase of that magnitude will cost a great deal of money and that the position of Congress right now is to not add funding.

One of the proposals that our association is considering at this time is to look at the out-of-school interest subsidy for the GSL Program and consider whether or not students can be held responsible for that payment and therefore those funds be used to help supplement the Pell Program.

Second, limit the maximum award to 60 percent of the Pell grant cost of attendance.

A statutory limitation on the percentage of cost of coverage was intended to ensure that there would not be a major disparity between the amount of cost for a student to attend a high-cost private institution and a lower-cost publicly supported institution.

There would be a built-in incentive for students to attend the lower-cost schools if this 60 percent limitation were not continued. This would greatly reduce the ability of students to choose between types of institutions with differing Program selections. This would also limit educational diversity and ultimately would cost the taxpayer more.

I think it's understood that the expense for a student to attend a publicly supported institution is not solely limited to that of tuition.

Third, we would like to establish in statute a master calendar for the delivery of student financial assistance. It is particularly difficult for those students who are considering a private career institution, since many of these classes begin on or before July 1 of a given award year.

At a minimum, we propose specifically that the contract requirements, applications, and related instructions be made available by the Department of Education no later than November 1 of the year preceding the award year of the Pell grant and that June 30 be established as a cutoff date for application for an award year.

Fourth, we would like to require that forms continue to be made available to students who apply for the Pell grant without charge.

It seems ludicrous and perhaps is unique within all Federal programs to require that a potential recipient of a Federal aid program has to pay money to determine whether or not he or she is needy. This, I think, is one of the factors that will inhibit both access and opportunity to higher education to people from lower income families.

Fifth, we would like to see that the needs and limitations of small institutions be considered when changes to the current Pell grant delivery system are discussed.

There has been considerable discussion recently changing the approach to processing the Pell grant to using a decentralized approach. Some of this is based upon the assumption that an institution has access to computers and sophisticated software. This is not always the case. Many AICS institutions enroll less than 500 students per year.

Sixth, we would like to simplify the application and validation process. The current system involves over 22 factors in determining a student's financial need. This leads to many reporting errors and misawards.

The response by the Department of Education and others is to recommend that the Pell grant need analysis include only six factors, thus reducing the potential for error. We support those recommendations. We firmly believe that this will result in more accurate reporting of those factors.

We also strongly support the concept of validation despite the fact that many of our applicants are first-time applicants, and thus it is more difficult, and certainly more costly, to do that validation

effort, but we are supportive of it. Validation has proven to be an important means to ensure that accuracy of data is provided.

Last, we would like to see that, in law, the definition of a full-time student in attendance at a clock-hour institution of the Pell grant be changed from the current 900 clock hours to 720 clock hours per academic year. This would be consistent with the approach which is used by the Veterans Administration, and the current standard fails to recognize that a considerable amount of preparation is required outside of the classroom. Thus, establishing 720 clock hours as the academic year would create parity for those programs measured by clock hours.

Again, thank you for allowing us to testify on the Pell Grant Program, policy, and administration. I look forward to answering your questions and providing you with additional information as you may need in making reasoned judgment about the future of this most important program.

[The prepared statement of David Strada follows:]

PREPARED STATEMENT OF DAVID STRADA, DIRECTOR OF STUDENT FINANCING AND REGULATORY AFFAIRS, KATHARINE GIBBS SCHOOLS, INC., ON BEHALF OF THE ASSOCIATION OF INDEPENDENT COLLEGES AND SCHOOLS

ASSOCIATION OF INDEPENDENT COLLEGES AND SCHOOLS

The Association of Independent Colleges & Schools (AICS) was founded in 1912 and now has a membership of 636 diverse business schools and colleges and another 337 branch campuses. Its institutions range from business or specialized schools offering training of up to one year in length to junior and senior colleges offering recognized associate and baccalaureate degrees.

Approximately 595,000 students are enrolled in these institutions, representing a broad range of income and racial backgrounds. Approximately 90% of the AICS-accredited institutions are taxpaying business corporations; all of the institutions are non-public. In common with all non-public institutions, they are either entirely or primarily tuition-dependent for operating revenues.

AICS member institutions are accredited by the Accrediting Commission of the Association of Independent Colleges and Schools. Since 1953, the Accrediting Commission of AICS (formerly known as the Accrediting Commission for Business Schools) has engaged in the evaluation and accreditation of independent colleges and schools. In 1956, the Accrediting Commission was officially designated by the U.S. Commissioner of Education as a nationally recognized accrediting agency. Such recognition has been renewed since that time and now extends through 1985.

Mr. Chairman and Members of the Subcommittee. I am David Strada, currently serving as Chairman of the Student Financial Aid Administration Committee of the Association of Independent Colleges and Schools (AICS or the Association). In my full-time capacity, I am employed by the Katharine Gibbs School, Inc., a subsidiary of Macmillan, Inc., as its Director of Student Financing and Regulatory Affairs.

Included as a preface to my remarks today is an overview of the Association of Independent Colleges and Schools and its membership. Katharine Gibbs School, Inc. owns and operates 11 schools in eight states enrolling approximately 5000 students in secretarial training programs. The Gibbs School was founded in 1911. Ninety-two percent of our enrollees complete their academic program; 98% of those who complete are placed in positions in which they use their training.

The Association appreciates having the opportunity to discuss the reauthorization of the Pell Grant program. In my presentation today, I will review the importance of the Pell Grant program to students attending AICS institutions, will identify problems with the Pell Grant program administration, and will suggest changes to the program to improve the program. The primary reason why the Pell Grant program works well is because the grant is given to individuals and not to institutions. Congress made a conscious decision in 1972 that most federal aid to postsecondary education should be targetted to and through students. It has proven to be a program which is responsive to student needs and provides opportunity, as its original name—Basic Education Opportunity Grant—suggests.

OVERVIEW OF STUDENT CHARACTERISTICS AND PROGRAM PROBLEMS

I believe that it is important to review the general characteristics of students who attend AICS institutions in order to understand our recommendations for reauthorization. A 1983 study conducted by the National Commission on Student Financial Assistance found that:

(1) nearly two-thirds of students at private career schools applied for financial assistance;

(2) the private career institution sector is providing financial assistance to individuals with an average age of over 25 years old;

(3) 54% of those receiving financial assistance are from minority groups;

(4) 56% of those receiving financial assistance come from families with incomes under $6,000; and

(5) these institutions serve a greater proportion of independent or self-supporting students than other postsecondary sectors; 54% of those receiving aid at private career schools do not have any parental support.

It is clear from our review of the student body population served by private career institutions that the Pell Grant program is an essential component of a student's ability to participate in postsecondary study. While loans made up approximately 13% of all federal student assistance for those students in 1978, almost 50% of all federal student assistance provided students attending private career schools now is in the form of loans. Moreover, a recent national study shows that, while students attending private career institutions are often the least advantaged financially, they have the highest percentage of unmet need.

When one realizes that the Pell maximum award has not kept up with inflation during the past ten years and that campus-based programs (SEOG, CWS, NDSL) and state funding is limited for students attending private career schools, it is understandable that there would be a heavier and heavier reliance on loans to fund a postsecondary education. These limitations are primarily the result of (1) the state allotment formulas failure to recognize "fair share" of unmet institutional need; (2) a statutory prohibition against using College Work-Study funds on campus; and (3) state restrictions on providing state grant aid to students attending private career schools.

There are many problems with Pell Grant processing and structure which inhibit the effective delivery of federal grant aid to eligible students. Some of these factors can be corrected by statute and regulation, while others are, unfortunately, an integral part of the congressional authorization/appropriations process. Processing problems include: (1) the magnitude and complexity of the application form creates difficulties for unsophisticated applicants; (2) the slowness in receiving Pell Grant institutional authorization award letters limits the ability of institutions to disburse Pell funds to needy students in a timely manner; (3) the number and type of data elements required for both application and validation to determine eligibility is burdensome; and (4) uncertainty as to Pell appropriations levels and, therefore, maximum award and coverage levels, wrought by the congressional authorization/appropriation process creates uncertainty in financial aid packaging. Regarding the last problem cited, for example, we are within one and one-half working days of the beginning of the award year and yet, due to incomplete action on the supplemental appropriations bill, students, parents, and institutions are still not 100% certain of what the Pell award will be.

A recent GAO report on Pell Grant administration highlighted additional problems. Although we strongly disagree with many of the GAO's assumptions, conclusions, and recommendations, the report has stimulated renewed efforts to improve program administration.

RECOMMENDATIONS FOR REAUTHORIZATION

AICS recommends the following for reauthorization of the Higher Education Act:

Set the maximum Pell grant at $3,000 for the 1986–87 academic year with an automatic adjustment each subsequent year.

The Education Amendments of 1980 anticipated the Pell maximum to be $2,600 by academic year 1985–86. Even that authorization would have not allowed the Pell Grant to keep up with inflation between academic years 1981–82 and 1985–86. However, as we all know, the current Pell maximum for the 1985–86 academic year will probably only be $2,100.

The recommendation to increase the Pell maximum to $3,000 will reflect more accurately the increases in the cost of postsecondary education and appropriately begin the restoration of balance between loan and grant support. Moreover, this

maximum should be adjusted annually to maintain an appropriate balance in subsequent years.

Limit the maximum award to 60 percent of the Pell grant cost of attendance.

A statutory limitation on the percentage of cost coverage was intended to ensure that there would not be a major disparity between the amount of aid one student could receive by attending a high-cost private institution versus a lower-cost publicly-supported institution. Should the percentage of cost coverage be expanded beyond the current 60%, it is inevitable that there would be a built-in incentive for students to attend lower-cost, publicly-supported institutions. This would greatly reduce the ability of students to choose between types of institutions with differing program selections, would limit educational diversity, and, ultimately, would cost the taxpayer more to expand capacity to support increased enrollment at tax-supported institutions.

Establish in statute a master calendar for delivery of student financial assistance.

Current law does not require that the Department of Education (ED) present information at a specific time in the application process. This makes it very difficult for students, families, and institutions to obtain the necessary information in order to make decisions about postsecondary choices. It is particularly difficult for those students who are considering a private career institution, since many of these classes begin on or before July 1 of the academic/award year. Moreover, these institutions often have class starts on a weekly or monthly basis.

At a minimum, we propose specifically that the contract requirements, applications, and related instructions be made available by ED no later than November 1 of the year preceeding the year during which the Pell Grant funds will be used, and that June 30 be established as the date by which students must file applications for Pell Grants.

Require that the forms to determine financial need by available to all applicants without charge.

It seems ludicrous, and perhaps is unique within all federal programs, to require that potential students be charged money to determine if they are needy. We believe it is appropriate to charge a fee for students who want to apply for other types of aid if the institution chooses to do so for its own need analysis purposes. However, the Pell Grant program must be what it was originally intended to be, one of access and opportunity for the low-income student.

Recognize the needs and limitations of small institutions when considering any major changes to the current Pell Grant delivery system.

There has been considerable discussion recently regarding the decentralization or streamlining of the Pell Grant delivery system. While we support the concept of making changes to the program which will expedite the delivery of the aid to the student, Congress should be aware that some institutions do not have the sophisticated capacity to act as Pell processors or participants in the processing. While some of the need analysis and other processing work can be handled on a personal or microcomputer, parts of the process cannot. Therefore, it is essential that new consideration be given to those institutions without a major computing capacity.

Simplify the application and validation process to include a limited number of basic factors to determine need.

The current system involves over twenty-two factors in determining a student's financial need and the expected family contribution for that student. This desire for a pure system leads to many reporting errors and misawards. The response by ED and others is to recommend that Pell Grant need analysis include only six factors, thus reducing the potential for error. We support that effort. We firmly believe that this will result in more accurate reporting of those factors and will reduce the intimidation felt by many low-income applicants.

In supporting the reduction in factors to be considered in determining a student's need, we also strongly support the concept of validation. Validation has proven to be an important means to ensure the accuracy of the data provided. To the extent that any misrepresentation does occur, validation also would have a chilling effect on applicants intentionally misrepresenting their financial status.

Ensure the administrative cost allowance (ACA) is paid.

The use of the appropriations process to supersede current law regarding payment of the ACA to institutions for processing Pell Grants creates uncertainty within the institution and does not allow for long-range planning based on the receipt of the ACA funds. The Pell Grant program is not a simple program to administer. We want to do everything we can to make its administration more effective and to provide better information for students and their families. However, in order to adequately plan for information brochures, staffing, and systems development, assured receipt of the ACA funds would be most helpful.

Define in law a full-time student in a clock-hour program as being one who takes 720 clock hours per year.

Currently, regulations require that 900 clock hours be taken in each academic year for full student aid eligibility. This requirement is considerably higher than the 792 clock hours (shop-oriented courses) and 648 hours (theory-related courses) required for an academic year for Veterans Administration eligibility. The current ED standard fails to recognize that a considerable amount of preparation is required outside the classroom. Establishing 720 clock hours as an academic year would create parity with those programs measured in credit hours.

Again, thank you for allowing us to testify on the Pell Grant program policy and administration. I look forward to answering your questions and providing you any additional information you may need in making a reasoned judgment about the future of this most important program.

Mr. FORD. Thank you very much.

Mr. Coleman.

Mr. COLEMAN. Ms. Chelimsky, I wonder if you or anyone with you here today was involved in developing the August 1984 report raising issues on Pell grants and proprietary schools.

Ms. CHELIMSKY. No, sir. We were not. That was done in another division at GAO.

Mr. COLEMAN. Were you asked to bring anybody here today to discuss those issues?

Ms. CHELIMSKY. No; we did not.

Mr. COLEMAN. Mr. Chairman, a representative of the GAO indicated that she nor anybody in her presence here today were involved with the preparation of the August 1984 report dealing with the issues of proprietary schools and Pell grants. I was under the assumption that we would cover this ground today, and obviously we can't.

I would again request the opportunity for having GAO and the people who were impacted by their report to be present at a hearing so we can discuss these issues.

Mr. FORD. We would be glad to work that out.

Mr. COLEMAN. I thank the Chairman.

It is amazing to me that we have found $300 million plus net errors overpayment when we are all sitting around trying to talk about where we are going to get some more money.

Ms. CHELIMSKY. Exactly.

Mr. COLEMAN. We must start right there so that we can establish some credibility; $300 million is not small change in anybody's pocketbook, I would hope that you will translate your findings into some meaningful reforms that we can work with the Department on.

Ms. CHELIMSKY. We would be happy to do that.

Mr. COLEMAN. I am glad that you are going to do that.

Ms. Chelimsky, I have one more question.

Did you find that these were intentional or accidental or did you attempt to determine that?

Ms. CHELIMSKY. I am so glad that you asked that question. We didn't find any basis whatever for making that judgment based on the research. That is what I was trying to say when I said that the Department has not looked at the causes of these errors. The research doesn't show that.

I think that one of the problems we are having in giving this error problem our serious consideration is what some of the people

here have said today, that it hasn't been talked about in a very clear way what, in fact, we found and what, in fact, we don't know.

One thing we don't know is anything about intentional error or fraud or waste or abuse. It is simply not the case that we have that information.

Mr. COLEMAN. The institutions that you used in your sample, are they a representative sampling of all types of institutions that utilize Pell grants?

Ms. CHELIMSKY. Yes; that is right, except for the fact that we had six sample surveys. It is a very complex study and some of the surveys were set up for one purpose, others for another. The one that was a pre-post was basically first a nine—there was a sample of nine institutions, very carefully selected, and then when we did the post, we added three more to make certain that every type was represented.

Mr. COLEMAN. Did you find trends that show that one type of institution over another is more prone to having errors?

Ms. CHELIMSKY. You are asking exactly the question that we are upset about the fact that the Department has not done. It does appear that there are some error-prone institutions, but the research they have done doesn't show that.

Mr. COLEMAN. And none that you have done show that?

Ms. CHELIMSKY. No.

Mr. COLEMAN. Did you try to find that out?

Ms. CHELIMSKY. No; we did not. What we did was answer the questions that the subcommittee had posed us, which is are these burdens excessive that the institutions have had. You know, I have told you what the questions were that we addressed. That was not one of the questions we addressed, which institutions.

But we do know that the research is lacking to pinpoint problems. It is exactly I think what Mr. Heffron said, as well, earlier, that we don't know the causes of these problems. We don't know where they are located.

But I would point out that some of the data in these studies is good for aggregate purposes. I really do feel that the data, if you are using them for one particular purpose to look at error as a whole, they are reasonable.

Mr. COLEMAN. I don't understand how you have gotten information from some institutions and then can't tell me if some institutions seem to be, as you say, more error-prone than others. Why don't you have that information?

Ms. CHELIMSKY. I think that in order to say that an institution was error-prone, you would have to have an entirely different design, an entirely different sample than we had. You would have to be able to be comparing one institution with another. We didn't do that. We were collecting information from them in an indepth case study mode, which was in order to balance the generalizable large survey that we did.

So it is always the question that you are posing that determines the design that you have. And that was not our question.

Mr. COLEMAN. Do you need the Congress us to ask you that question to study the issue?

Ms. CHELIMSKY. I think that we had 13 questions to answer in this study, and while I would have loved to have another one, I am

not sure we would have ever produced the report if we had anymore. It was quite a lot of work.

Mr. COLEMAN. Well, we might be able to send you another letter with other questions.

I thank all the witnesses, and appreciate their testimony Thank you, Mr. Chairman.

Mr. FORD. Thank you very much.

I think that I observed that what Ms. Chelimsky said in her previous statement was that from their examination of data basically gathered at the request of the Department, because of the way that they have structured the information to be retained and available, that the concentration is so strongly on how you find the error after it has occurred, that when you talk about saving $400 million, it really is a very poor way to discover how to save the money.

If, indeed, you could do some of the simple things that have been suggested here, like correcting data before the award, you would prevent the error from occurring and you save the money. But I am not sure—you would have to look at the study of what happened, whether sometimes the data doesn't go in the other direction. Sometimes there is more eligibility by the time the award is made.

Ms. CHELIMSKY. That may very well be true because we have some fear that there is an underestimation of underaward simply because the Department doesn't have all the institutions in its sample. But above all, because they have not checked for eligibility of people who have been denied awards.

So we really are uncertain about the size of that underaward total.

Mr. FORD. We will look further at what you have given us today and what we had previously sent over from the Department and maybe we can join with Mr. Coleman in asking some questions that won't take a whole lot of time if the Department cooperates with you.

Ms. CHELIMSKY. We would be happy, even if it does take time.

Mr. FORD. I am very sorry to cut this off because of a vote on the Mig's in Nicaragua, and we will have to adjourn the committee hearing for the day.

[Additional material submitted for the record follows:]

ILLINOIS STATE SCHOLARSHIP COMMISSION,
Deerfield, IL, August 1, 1985.

Congressman WILLIAM D. FORD,
Chairman, Subcommittee on Postsecondary Education, U.S. House of Representatives, Washington, DC.

DEAR CHAIRMAN FORD: This is a follow-up to our May 3, 1985 letter to the National Student Aid Coalition staff director Linda Berkshire (with a copy to you) and our related testimony today before the committee. The State of Illinois student grant system has for four years successfully "piggybacked" the Pell Grant central processing system. Contrary to testimony given to you and the committee on June 27, 1985, the ISSC supports the continuation of ED's central processing system and opposes the rumored (and apparently unexamined) "decentralization" of this national system by ED to ACT and CSS.

We would be pleased to come again to Washington, D.C., and discuss details of the Illinois approach with you, members of the committee (particularly Congressmen Hayes and/or Bruce), staff, or others if you think appropriate. The rationale for our position is contained in the attached copy of our May 3, 1985 letter and highlighted below.

1. There should be free market competition to be the national processor. Only two competitors (ACT and CSS) is not a free market. If allowed to happen, it would be an oligopoly. Many companies have competed for this contract over the years, resulting in the best service for the best price to U.S. taxpayers and Illinois taxpayers (since we have twice hired the winner of the national competition to do our processing as well.)

2. The application form and system should be simple. Since ISSC started this "piggyback Pell" approach, the market has evolved and changed application preferences in Illinois. Now about 50% of our approximately 315,000 applicants complete the federal form (Application for Federal Student Aid—AFSA) instead of the ACT or CSS form. The schools that prefer the federal form get all the data needed to administer the programs, including campus-based aid, and at no charge to the student. So does the ISSC.

3. Control of the system properly belongs with the government (Congress and the Administration), not among 2 or 3 contractors, the schools, nor the states. With one contractor, there would be greater control and consistency of results. The infamous quality errors have resulted from the "decentralized" portions of the national systems (particularly at some schools) not the central processor. There needs to be consistently applied edits, formulae, etc.

4. The Pell Grant system is the most efficient and cost effective of the national systems, and it meets or beats quality and turnaround specifications prescribed by ED. The unnecessary costs ED is experiencing are in redundant processing done by the other national systems used by ED for Pell Grant data entry.

5. "Decentralization" may have been a good idea in 1972-73, but not now. When ED first was considering adding this national system, many of us argued against it. Over the years since then, however, many state and local systems have been developed building upon the presumed stability of the total delivery system. As evidenced in Illinois, it is easy for students, parents, and schools (and hopefully someday—lenders) to use. Why disrupt this?

6. If there ever will be an integrated student aid delivery system (ISADS) that meets national, state (especially those with multiple guarantors), school, lender, and applicant needs, it surely will evolve from one national system that all of us "plug into." It also should follow the flow of students seeking aid—first from Pell Grants, second from state grants, third from campus based programs, and finally from GSLs and other aid. This could also help us all reduce GSL defaults.

In summary, if there was one system feeding the many smaller ones, we could: reduce the costs to all participants in the system, gain better control over the quality of information, reduce family reporting burden, integrate GSL with the rest of student aid systems and achieve national coordination, encourage interstate, interschool, interlender cooperation in preventing fraud, improve research and policy analysis, capitalize on emerging technology that links smaller users and gains economies of scale, facilitate even greater simplification of the student aid delivery system including implementation of the so called "six data element form" for all Title IV programs, and eliminate the duplication that concerns some people now.

In ACT's testimony of June 27, 1985, they stated, "The current financial aid delivery system works surprisingly well considering the frequency with which rules and procedures change and the delays that are often experienced. Each year, millions of students receive the assistance they need, when they need it."

We heartily agree and we say, "If it ain't broke, don't fix it." The current law should not be changed on this topic. ED should 1) again bid out the Pell Grant processing for 1987-88 and beyond, and 2) should expedite development of the so-called ISADS.

Finally, feel free to call Dr. Keith Jepsen, ISSC Deputy Executive Director (X671), or me if we can be of further help.

Sincerely,

LARRY E. MATEJKA,
Executive Director.

Enclosure.

ILLINOIS STATE SCHOLARSHIP COMMISSION,
Deerfield, IL, May 3, 1985.

MS. LINDA K. BERKSHIRE,
Staff Director, National Student Aid Coalition, Washington, DC

DEAR LINDA: As a follow-up to our recent meeting in your office, this is to reaffirm that in the absence of a convincing case to the contrary ISSC remains strongly

opposed to elimination of the ED central processor. This is (or was the last we heard) also the position of NASSGP. The issue of centralized versus decentralized processing was debated at great length at NASSGP's Fall '83 meeting before final voting on our association's position paper for "reauthorization."

As you know, the 1986-87 system will be the fifth year for our very successful "piggyback Pell" approach (see attached letters from ILASFAA and Governor Thompson). While we would be open to discussion of even better systems, the place to start, in our opinion, is evaluation criteria (such as cost savings, family reporting burden, student understanding, effects on schools, redistribution of aid dollars, quality of data, verification, research and policy analysis, turnaround, etc.) for what would be better, not simply dropping what works. By the way, about 50% of Illinois grant applicants complete the AFSA. As the second largest state program in the country, we think the experience here would be relevant to Coalition discussions.

Decentralization, as currently rumored, would not likely save the taxpayers money. It would likely cost all of us more. Instead of one system feeding many users, we would have many (hundreds?) systems—the opposite of where technology is going. Quality, a constant challenge for us all, would, in our opinion, get worse, not better. The trend is to combine systems, not break them up. Networking is fed by centralized data bases. If federal expense is really the issue, we all should consider one national system (with a six data element form) designed and run by a company chosen via ED competitive bid, but with a charge to users—students, schools, states, lenders, ED, etc. All of us could buy the data from a free market determined central process. Our hunch is students and the federal government would significantly reduce their costs with this approach and would enjoy a simpler system.

In the interim, this state, for one, is very pleased with most of the national delivery system, particularly the state agency subsystem of Pell Grant processing. In fact, consistent with current thinking about centralizing GSL data bases, decentralizing Pell would mean going backwards on the evolutionary progress being made toward a system wherein a student could fill out one form for everything—including GSL. That "someday system" also needs to link ED, the states, the schools, and the lenders, especially if we are to prevent fraud and abuse.

We're getting closer in Illinois. We thought for 1986-87 our state systems would be "Pell driven" (from ED state tapes) for grants and loans, but for a number of reasons the loan portion will be delayed a year or so. Consequently, we would very much appreciate our emerging long range plans benefitting from more direct participation in national delivery system discussions.

With your okay, Steve Cameron will continue to sit in on CONAD meetings. Also, Tom Breyer, a new member of our staff (most recently Executive Director, Illinois Independent Higher Education Loan Authority) will be assisting Larry and me with Washington, D.C. liaison, particular ED, and the higher education associations, etc. Tom may sub for Larry, Steve, or me on occasion.

Sincerely,

KEITH JEPSEN,
Deputy Executive Director.

STATE OF ILLINOIS, OFFICE OF THE GOVERNOR,
Springfield, October 14, 1982.

Mr. RAY PRANSKE,
Director, Financial Aid & Veteran Service, Lake Land College, Mattoon, IL

DEAR MR. PRANSKE: Thank you for your letter informing me of the accomplishments of the Illinois State Scholarship Commission.

I agree with you that the performance of the Commission has been excellent. I am sure that with the continued support of the financial aid community, the staff of the ISSC can continue to provide a high level of service to Illinois students.

Sincerely,

JAMES R. THOMPSON
Governor.

ILLINOIS ASSOCIATION OF STUDENT FINANCIAL AID ADMINISTRATORS,
September 7, 1982.

Hon. JAMES THOMPSON,
State Capitol Building, Springfield, IL

DEAR GOVERNOR THOMPSON: On behalf of the Executive Board of the Illinois Association of Student Financial Aid Administrators, I would like to call your attention

to the outstanding job that has been done by the Illinois State Scholarship Commission.

This past year ISSC, through the leadership of its' Executive Director Larry Matejka, elected to dramatically reduce both the complex application process as well as the cost of processing for the Illinois State Scholarship Monetary Award.

For the first time in the history of ISSC, students can make application for the Monetary Award by completing only one form, thus tying into the federal Pell Grant System. As a result of the implementation of this new system, students are finding it much easier to apply for assistance, announcements are being made faster than ever and there are fewer errors in the reporting of information. All this means is that students have a greater opportunity to obtain access to an institution of higher education as well as choice in assuring that the institution meets their academic needs.

We in ILASFAA want you to know that this conversion is nothing short of amazing. The efforts of ISSC, specifically Executive Director Larry Matejka, Assistant Executive Director Keith Jepsen and the rest of the ISSC staff are a tribute to the State of Illinois.

Sincerely yours,

RAY PRANSKA,
President, ILASFAA.

[Whereupon, at 12:15 p.m. the subcommittee adjourned subject to the call of the Chair.]

REAUTHORIZATION OF THE HIGHER EDUCATION ACT

Pell Grant and Campus Based Programs

Volume 2

TUESDAY, JULY 16, 1985

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON POSTSECONDARY EDUCATION,
COMMITTEE ON EDUCATION AND LABOR,
Washington, DC.

The subcommittee met, pursuant to call, at 9:30 am, in room 2175, Rayburn House Office Building, Hon. William D. Ford (chairman of the subcommittee) presiding.

Members present from the Subcommittee on Postsecondary Education: Representatives Ford, Hayes, Gaydos, Coleman, Gunderson, McKernan, Henry, Goodling, and Tauke.

Staff present from the Subcommittee on Postsecondary Education: Thomas Wolanin, staff director; Kristin Gilbert, clerk; Rose DiNapoli, minority legislative associate; and Rich DiEugenio, minority senior legislative associate.

Mr. FORD. I'm pleased to call to order this hearing of the Subcommittee on Postsecondary Education, as we continue our hearings on the reauthorization of the programs contained in the Higher Education Act.

Today's hearings will focus on the campus-based student aid programs, the supplemental educational opportunity grant, the College Work-Study Program, the National Direct Student Loan Program, and some of the others that complement these.

These programs are extremely important components in the packaging of student aid at the campus level to meet the unique needs of individual students with grants, loans, and work opportunities.

Through these programs, $1.85 billion, will be made available to students this coming year, enabling nearly 2½ million awards to be made.

We will also hear testimony this morning on the State Student Incentive Grant Program, which has been a very successful partnership between the Federal Government and the States in making need-based grants available to students.

Before yielding to the other members of the committee, I want to repeat, as I have in the past, this is the 13th Washington hearing of 20 that were scheduled by specific subject matter, so that we would not be all over the map with any given panel. So, some wit-

nesses are repeating their appearances. These hearings are coupled with 11 hearings across the country, most of which we've completed now.

It's not possible for us to accommodate everybody who wants to be heard on every subject. Some subjects draw an awful lot of attention, others very little attention. But whether you're on a panel or not, we invite anyone to contribute who has any contribution that they wish to make to the record that's being built with respect to each and every program. There is no idea that we won't look at.

If something is said by one of the panelists that provokes a thought or a reaction in you, please share it with us, and we will be happy to put it in the record.

Mr. Goodling.

Mr. GOODLING. I have no comment, Mr. Chairman.

Mr. FORD. Mr. Gaydos.

Mr. GAYDOS. No comments.

Mr. FORD. I want you to note the diligence with which the Pennsylvanians are attending these hearings, both parties. And now we have Iowa present.

Our first person that we're going to hear from this morning is a much valued colleague to all of us, and an outstanding member of the House, albeit from the wrong side of the aisle. But from that side of the aisle, not a bad guy. I'd like to bring forward Jim Leach.

Jim, you're more than welcome here, you know that.

Mr. LEACH. Well, thank you, Mr. Chairman.

I have a statement I'd like to ask be inserted in the record. And I'll briefly summarize it if I could.

Mr. FORD. Without objection, it will be included.

STATEMENT OF JIM LEACH, CONGRESSMAN FROM IOWA

Mr. LEACH. First, let me just stress I appreciate being asked to testify this morning. And, particularly, it's been my experience in this Congress, having served with you in one committee at an earlier time, that you bring to all areas under your jurisdiction a particularly committed and scholary approach.

What I would simply like to stress is that with regard to funds allocated by the Higher Education Act that we are now based largely upon a frozen formula. And that frozen formula is good for some institutions and bad for others.

I happened to represent one small school in my district that is negatively impacted, and a school that feels out of sense of fairness that the formula ought to be changed. And because I've had a good deal of communication with the Department of Education and your staff in this matter, they've asked me to come and outline the problems of that school.

And, basically speaking, under a fair allocation formula, they're getting in the three different programs about half the funds they feel would be allocated under a more up-to-date system.

The background is that when we used frozen formulae, basically, we go back to a 1979-80 time period for a lot of the funds that are allocated.

In this regard, in that particular period, the college that I represent did not have a particularly aggressive management, and, more

extraordinarily, decided to obey the law to the letter and returned a substantial amount of the funds that were allocated to it to the Federal Treasury.

And, so, what we have is a situation where a college by abiding by the law is being penalized by the law. And it's awfully difficult to tell a college president that has been scrupulous in accountability of Federal funds that today, because of that scrupulousness, his college will get less money than others under the formula used.

My own sense is that the formulas ought to be updated. But this is always a difficult thing, because what is good for the goose is not always good for the gander. But that the key criteria ought to be the evenness of the grease used in the cooking. And that implies, above all else, fairness.

And, so, while I have no magical formula to present to the committee, I would suggest that a little more flexibility be put into the formula used and that, in essense, we probably should have a slightly lower percentage of funds that are allocated under a frozen basis, and a slightly greater percentage of funds that would be allocated under a modern need use.

And with that, Mr. Chairman, I would conclude my testimony.

[The prepared statement of Hon. Jim Leach follows:]

PREPARED STATEMENT OF HON. JIM LEACH, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF IOWA

Mr. Chairman, thank you for the opportunity to appear before your subcommittee this morning.

My purpose for taking your time this morning is to invite the subcommittee's attention to a problem that has arisen for a college in my District as a result of the way funds are allocated by the Higher Education Act for the three campus based programs: National Direct Student Loan (NDSL), College Work Study (CWS), and Supplemental Educational Opportunity Grants (SEOG). It is my understanding that a significant number of institutions across the country are experiencing the same problem.

Officials of the college in question, St. Ambrose College in Davenport, Iowa, estimate that for the 1985-86 academic year the school will receive 80 percent of its fair share of NDSL funds, only 60 percent of its fair share of SEOG funds, and a mere 35 percent of its fair share of CWS funds.

I would like to focus on the process specified in the Higher Education Act of 1965, as amended, for annually distributing available College Work Study funds among eligible participating postsecondary institutions within each state. The NDSL and SEOG programs use institutional allocation processes that are generally similar to that for the CWS program.

As you know, according to the Act, if a postsecondary institution participated in the CWS program in the 1979-80 award year, the institution is guaranteed the greater of $5,000 or 100 percent of its Federal share of CWS expenditures for 1979-80. Once all such institutions have been funded to this level, any CWS Money left over in the state is distributed according to a complex formula which takes into account the particular institution's shortfall from its "fair share" in relation to that of all other institutions in the state.

The obvious and laudable intent behind this formula was to ensure, first, that no school received less than it was presently receiving—that the Act, as amended, would not harm any institution—and, second, that as appropriations for the prgram grew, these additional funds would be equitable distributed.

The formula has not worked equally well for all schools, however, and there ae two basic reasons for this.

First, appropriations have not grown as anticipated and seem unlikely to do so in the foreseeable future. As a result, schools have been effectively locked into the funding level they received in 1979-80 and the farther one gets from such a historical baseline, the less likely it is to represent a realistic approximation of need.

Second, for some schools the year on which the guarantee is figured will be one in which their need was unusually low and they are locked into a funding situation

that does not meet their real needs and for which there is no avenue for seeking relief short of changing the law.

This is the case for St. Ambrose. Not only was the year 1979-80 one of extraordinarily low need with regard to the so-called Title IV campus based programs, and particularly so for CWS, the school—in what some might call an act of equally extraordinary naivete—actually turned unused CWS funds back to the Treasury.

In this time of budget deficits it is difficult to tell a college president whose school is suffering because it turned back money it did not use in a particular year that to do so was a mistake. Yet from the college's perspective it was a mistake and will continue to be one unless the law is changed.

From the nation's perspective, on the other hand, we will never get our budget under control if we do not reward rather than punish such responsible use of taxpayer dollars.

This is obviously a complex situation and one made more difficult by the fact that to increase the funding for one group of institutions may entail lowering it for others. Simply to move forward in time the year on which the funding guarantee is set will not work because those institutions whose funding levels were unusually low 1979-80 will obviously be at that same low level in subsequent years.

I would not want to presume to have the best answer for the problem but would request that the subcommittee consider altering the formula used to distribute funds for campus based programs in a way which would more accurately reflect the present needs of the institutions receiving the funds. Perhaps one way to adjust to the times is to decrease the percent of the guarantee received in yearly increments, while increasing the precent of the available funds that are distributed on the basis of the present fair share calculation.

Whatever your decision, I hope the subcommittee will take this opportunity to examine the way in which the funding for these programs is distributed. As I noted at the outset, while St. Ambrose may be an extreme case, it is my understanding that you will hear from the representatives of other institutions who are also being comparatively injured by the status quo.

What is good for the goose is not always good for the gander, but the criteria in cooking should be eveness of grease—that is fairness—and fairness would seem to dictate that a review of the allocation criteria for these is past due.

Again, thank you for the chance to appear before you this morning.

Mr. FORD. You've not only outlined the problem very well, but explained how your school in Davenport got into that problem. It's a combination of the fact that they were not very aggressive during the period that happened to be picked as a base for a hold harmless. And then the fact that that student population has now changed somewhat and grown in terms of the number of people with demonstrated need who would qualify for these programs.

During the past 4 years the budget has consistently been frozen, the expansion of funds—so that everybody's sort of locked tight to that year that we picked to hold people harmless with.

The idea was that additional funds would go to schools like yours.

Mr. LEACH. Uh-huh.

Mr. FORD. And since there's been no additional funds, there's been little or no adjustment for a school like that from the amount of money they were getting in 1979 and 1980. The absence of additional appropriations treats them as if the law simply said that's all you ever get. And, indeed, that's probably what they think is happening. But it's not a function of the authorizing legislation. It's a function of our inability to get the budget expanded for programs of this kind. And I expect that we'll be dealing with that for some time into the future.

In anticipation of that being the case, however, it may be possible in reauthorization to in some way put in a short-term adjustment until such time as the funds go for some kind of priority system if, in fact, then, in examination of where the funds are

going it indicates that some people are being held at a high percentage of return because they do not now have the needy students, but had a good baseline year, and others now have the needy students.

In other words, we'll see if there's a way that we can make the money track where the students really are.

And we appreciate having you bring this to the attention of my staff before appearing before this hearing. And that's why they wanted you to get this on the record, because we knew that our colleagues would be concerned when they heard what you had to say about this.

Mr. Goodling?

Mr. GOODLING. Jim, just so I understand. Are you saying that because of frozen funds and an increased student population that is what has created your problem?

Mr. LEACH. Well, actually, those are two elements. The other two elements were that 6, 7 years ago the management of the college was perhaps not as aggressive as other colleges of similar ilk. And, second, the college received a given sum of money in 1979 that it actually returned to the Treasury. And based upon returning money to the Treasury, its formula allocation actually decreases.

And, so, instead of trying to, like a contractor in the Defense Department, spend everything in the last quarter to guarantee they'd get the similar amount the following year, this college chose to return money to Uncle Sam. And, based upon that, gets less money in the following year.

Mr. GOODLING. I see. Thank you.

Mr. FORD. Mr. Gaydos?

Mr. GAYDOS. One that is shared by other members of the committee and other Members, generally, our colleagues, I think it's a viable point.

I have no specific questions to ask.

Mr. LEACH. Thank you, Mr. Gaydos.

Mr. FORD. Mr. Tauke?

Mr. TAUKE. Thank you, Mr. Chairman.

I, too, commend my colleague and join with him in the points that he has made. In addition to the four points which you mentioned relating to the programs, I know Clark College in Dubuque suffers from a similar problem as Saint Ambrose in Davenport on the NDSL Program. The problem there is because Clark was quite aggressive in collections of NDSL's, apparently more aggressive than some other institutions, and, therefore, had less demand for money during the 1979–80 base year.

Regarding college work-study, another college to the north of Davenport, Mount Saint Claire in Clinton, faces a very similar problem to what Saint Ambrose does. So, let me assure my colleague that there is at least one member on the subcommittee who is quite interested in trying to deal with the problem.

Mr. LEACH. Thank you. I would also note so does Loras College in a wonderful town called Dubuque, as well as Coe College in Cedar Rapids, institutions in the second best congressional district in the country.

Mr. TAUKE. Well, let me point out to my colleague that this year in basketball Loras won twice, Saint Ambrose zero.

Mr. FORD. The people from Cedar Rapids may be living in your district when you get home. I heard on the way in to work this morning that they are evacuating the city because some chemicals have got loose. And maybe they'll be in your district when you get home. So, you ought to be careful what you say about that, too.

Mr. Hayes?

Mr. HAYES. Thank you, Mr. Chairman.

But my firm belief is, when you arrive late, you forfeit all rights to raise questions or make comments of any witness.

Thank you very much.

Mr. LEACH. Thank you.

Mr. HAYES. Thank you very much.

Mr. LEACH. Thank you.

Mr. FORD. The first panel today will be Mr. Charles Saunders, vice president for governmental relations, American Council on Education; Joseph O'Neill, executive director, Conference of Small Private Colleges; Benjamin Sandler, director of financial aid, Washington University; and Arnold Mitchem, executive director, National Council of Educational Opportunity Associations.

Mr. GOODLING. Mr. Chairman?

Mr. FORD. Yes.

Mr. GOODLING. Our colleague, Mr. Coleman, wanted to be here to introduce Mr. Sandler. He's on his way, but he must have been delayed. So, I suppose when he arrives he can give a special introduction.

Mr. FORD. We'll do that.

Testimony submitted by each of the witnesses who will appear today will be inserted in full in the record.

And we would ask the members of the panel to proceed to supplement, summarize, add to, or editorialize on their prepared testimony in anyway they find or believe would be most helpful to the record.

And we will start with Mr. Saunders.

STATEMENT OF CHARLES B. SAUNDERS, JR., VICE PRESIDENT FOR GOVERNMENTAL RELATIONS, AMERICAN COUNCIL ON EDUCATION

Mr. SAUNDERS. Thank you very much, Mr. Chairman.

. I appreciate this opportunity to testify on behalf of the six major associations representing the Nation's colleges and universities on the campus-based programs, with particular attention to the State allotment formulas, which is an important issue that needs to be focused on. And Mr. Leach's testimony has helped do that.

With regard to the campus-based programs in general and the related SSIG Program, we have testified already on our specific recommendations for the program.

For those programs, sufficient here, I think, it's to say that we strongly support those programs and believe they are an important part of the arsenal of Federal Student Aid Programs.

We don't feel that the administration's efforts to abolish all of them except the Work-Study Program have any rational basis.

The last time these programs were looked at systematically was only 2 to 3 years ago by the National Commission on Student Financial Assistance, which recommended that they should be continued and that they should be targeted more effectively to the neediest students.

And it is with that goal in mind that we make our recommendations.

The recommendation to eliminate the State allotment formulas is, essentially, a very important part of that effort to focus Federal aid more effectively.

There are at least three reasons why the State allotment formulas should be eliminated. First, they are not needed. The law already includes institutional hold-harmless provisions which make it unnecessary to hold States harmless.

Second, those formulas are not targeted on the neediest students. They are basically enrollment driven, although each of them is different. Some of them have been based on undergraduate enrollment. Some of them are based on total higher education enrollment. Some of them refer to full-time and part-time students. And others simply are based on full-time students.

So, those formulas are not an adequate way, by any means, to target the money on the neediest students.

Finally, and most importantly, the allotment formulas for the campus-based programs have caused serious distortions in the distribution of Federal funds. This is a historical thing that's gotten worse with time. The old panel system, which allotted the funds among institutions, up through the late seventies, made its decisions based on very subject criteria. And a number of distortions were built into the system at that point, to the point where there are a lot of institutions that receive a much higher percentage of their need than other institutions.

And I would have to say that there is no general comment I could make to typify those kind of institutions. Some of them are large. Some of them are small. Some of them are public. Some of them are independent.

The primary characteristic of the institutions which are receiving relatively more funding than others is that they have been in the program for a very long time.

But Mr. Leach's problem, the type of problem illustrated by Mr. Leach's testimony, is, I would have to say, very common. There are an awful lot of institutions in that kind of situation.

There have been further distortions built into the formulas resulting from the funding cutbacks of the early 1980's. And amendments were added to the statute, both to the Higher Education Act and to the annual appropriation bills, to reduce each State's funding equally.

At a time when cutbacks had to be made, it was the judgement of Congress, at the time, to share that burden equally. But when you stand back and look at it, the need among the States is not equal. And this action had the effect of causing further distortions in the program.

More distortions were built in, in the fiscal year 1985 appropriation, at a time when there were funding increases. And, here, just the reverse happened. There was a little more money to be distrib-

uted in the programs, and Congress wanted to make sure that the increases would be shared equally among the States. The only problem is, that that sharing would have to be done regardless of relative need.

So, to address these problems, we recommend several steps. One, we would eliminate the formulas entirely and move the institutional hold harmless base up from 1979-80 to academic 1985-86 to ensure that every institution has at least what they are receiving now.

We would then distribute additional funding in the programs based on the current provisions for determining institutional need, that is, verifiable data about the number of aid applicants and their income distribution, the institution's cost and its fair share relative to the national distribution.

Our proposed language would also provide that if in case funds had to be reduced in the programs in case of short appropriations that that would—those reductions would—again be based on a common relative percentage of the 1985 base for all institutions.

We would propose that no institutions receive additional funds as long as its hold harmless exceeds its fair share.

That's the substance of our recommendations, Mr. Chairman. I'd just like to make a couple of general comments on the equities involved here.

First of all, we would not redistribute the funds from institutions now receiving more than their fair share. If you did, that would cause very large shifts from institution to institution. We estimate that approximately one-third of the SEOG appropriation would have to be redistributed.

But our primary argument is that none of the institutions are getting anywhere near what they need anyway. And we don't seem—the institutional applications for SEOG in the last year, for example, have totaled over $4 billion dollars more than the actual appropriation.

So, we just don't think that you can argue equity by taking away from some institutions and reducing the extent to which they are able to partially meet the needs of their needy students, so that other institutions can provide slightly less inadequate aid to their needy students.

Instead, we propose to address the inequities in the system by assuring that additional dollars will go first to those with greatest need. This would prevent many institutions from receiving increases for the indefinite future. And we have to be frank about this. There are a number of institutions in the country, probably several hundred—and some of them among the most distinguished institutions in the country—who are getting, because of the accident of history and the way this formula has worked out over the years, they are getting proportionately far more than other institutions.

And we feel that it's appropriate that if the programs are going to serve their objectives that those institutions which have received disproportionately greater funding in the past should not be cut, but simply be held level and not get further increases in campus-based funds until others with relatively greater proportions of needy students have their needs served first.

That concludes the substance of my testimony, Mr. Chairman.
[The prepared statement of Charles B. Saunders, Jr. follows:]

PREPARED STATEMENT OF CHARLES B. SAUNDERS, JR., VICE PRESIDENT FOR GOVERNMENTAL RELATIONS, AMERICAN COUNCIL ON EDUCATION

Mr. Chairman and Members of the Subcommittee: Thank you for the opportunity to present recommendations for changes in the campus-based student aid programs of Title VI of the Higher Education Act, on behalf of the six major associations representing the nation's colleges and universities.

The three campus-based programs, Supplemental Educational Opportunity Grants (SEOG), College Work-Study (CWS) and National Direct Student Loans (NDSL), as well as the related State Student Incentive Grants (SSIG), each serve important and separate though related functions in carrying out the federal objective of assuring access and choice of postsecondary education. The Administration's continued efforts to abolish all of them except CWS would deny their evident accomplishments. Indeed, the last systematic examination of their role and relationships (by the bipartisan National Commission on Student Financial Assistance) resulted in the Commission's recommendation to this Subcommittee on November 10, 1983, that these programs "should be continued and expanded, consistent with the funding levels for other federal student aid programs."

At the same time, the Commission noted, funding of these programs should more accurately reflect the current costs of higher education and should be targeted more effectively to low-income and minority students. Our recommendations are consistent with the Commission's findings: we would continue the programs, modify their authorization levels to reflect the rise in educational costs, and make specific changes to target them more directly to the neediest students. Since these recommendations were outlined in our previous testimony of June 5 and 27, this statement is primarily designed to explain our proposal to eliminate the state allotment formulas for the campus-based programs—an important step which should be taken to target the programs on the neediest students.

PROBLEMS OF THE CAMPUS-BASED ALLOTMENT FORMULAS

The state allotment formulas for each of the three campus-based programs are different, but none of them target funds directly on needy students. (In fact, it is virtually impossible for any formula to target funds on the neediest students using aggregate state data rather than the amount of aid needed by applicants in each institution.) The SEOG formula allots money to states based on their proportion of total full-time and part-time undergraduate enrollment, high-school graduates, and children living in poverty; the NDSL formula on the states' proportion of full-time higher education enrollment. None takes into account the income distribution of aid applicants or the cost of the institutions they attend.

After funds are allotted to the states under current law, the Education Department goes through a separate process to determine how much each institution in each state should receive. Prior to the 1979-80 award year, 10 regional panels annually determined the distribution of funds among the institutions, but there are great criticism regarding the subjective nature of this process.

To deal with the increasing complexities and inequities of funding the campus-based programs, the Department in 1977 appointed a committee of experts to evaluate the panel system. The committee recommended a new procedure based on verifiable data about numbers and income distribution of aid applications and institutional cost of attendence, with formulas for assessing each institution's need for funds relative to that of all other institutions. One formula was developed to assess the need for SEOG funds, and another for self-help funds (CWS and NDSL).

To minmize drastic funding shifts among institutions, the committee recommended that each institution be held-harmless at 100 percent of its current expenditure level, with the percentage gradually reduced in subsequent years to distribute increasing funds within and among the states under the institutional need formula. Regulations were developed to implement these recommendations and were embodied in the 1980 Amendments.

The new formulas for assessing each institution's national relative need for funds are, of course, inherently at variance with the state allotment formulas. The disparity is particularly great in the SEOG program, where the statute divides funding approximately in half; half for initial year awards, distributed by state allotment, and half for continuing year awards, distributed according to each institution's national relative need. In the NDSL and CWS programs 90 percent of the funding is distrib-

BEST COPY AVAILABLE

uted by the state allotment formulas, and the institutional need formula can be used only for intrastate distribution of funds and for distributing the remaining 10 percent nationally.

Distortions grew into the program through the years of distributing funds according to state formulas based on enrollment and informal panel judgements. Inequities have developed among institutions, some of which receive a much higher percentage of their need than do others. Many institutions have high hold-harmless amounts relative to those with equal or greater need. Some of these institutions with comparatively larger hold-harmless levels are large, some small, some public, some independent: their primary characteristic is that they have participated in the programs from the earliest years.

Further distortions have resulted because of the funding patterns of the last few years. All three programs suffered reduced appropriations in the early 80's (NDSL at $190 million in fiscal year 1985 is still at only 60 percent of its highest peak in 1976); and with the intention of equalizing the losses among the states (even though the need among the states is not equal), amendments were added to the statute and to annual appropriations bills to reduce each state's funding in proportion to its share of the fiscal year 1981 appropriation. Even though the appropriations decreased, some institutions received increases in SEOG funds during this period because they were in states where institutions generally had low hold-harmless amounts, and because the amendments eliminated the Education Department's authority to equalize funding across state lines.

Maldistribution in terms of national need was compounded in fiscal year 1985 when technical amendments eliminated the use of state allotment formulas for the SEOG and CWS programs. This step was taken in an effort to equalize the distribution of a 10 percent increase in the SEOG appropriation and a 7 percent increase in the CWS appropriation, to ensure that all states shared in the increases. Substitute language increased each state's funding in proportion to its share of the fiscal year 1981 appropriation. Thus all states received increases irrespective of the national relative need of their institutions.

RECOMMENDATIONS FOR MORE EQUITABLE ALLOTMENTS

As a result of such tinkering with the formulas, it is increasingly urgent that new funds for the campus-based programs be distributed more equitably among institutions so that they may be targeted more effectively on the neediest students. To this end we recommend that state allotment formulas be eliminated, and that new funds be distributed in all three programs based on each institution's national relative need. In addition, we recommend statutory language to support the current regulation that no institution may receive additional funds if its hold-harmless is higher than its "fair share" of the appropriation.

We do not consider it fair to students or institutions to reduce current institutional funding levels. We therefore recommend moving the institutional hold-harmless forward to Academic Year 1985-86 expenditures, which will be the highest funding to date in the SEOG and CWS programs. We would not restore the language reducing the SEOG hold-harmless from 100 percent (which was deleted in the 1985 appropriations act) because of the severe reductions it would cause in many institutional awards.

Irrespective of what other changes are made, the 1972 state hold-harmless provisions should be eliminated. They have no impact on SEOG and CWS funding because appropriations for those programs have increased, but could potentially cause substantial aberrations in the distribution of reduced NDSL funding because the distribution of funds among states has changed markedly since 1972.

The subcommittee may also wish to evaluate the formula which assesses institutional need for SEOG funds. Presently that formula computes for each institution 75 percent of cost of attendance of aid applicants and subtracts expected family contribution for those students, plus all Pell Grant funds, SSIG funds, and 25 percent of institutional grant aid received. In particular, the effect of this formula on institutional need among states with different tuition charges should be reviewed.

Several equity issues are posed by our recommendations. In accepting current funding levels as the base for future institutional allotments, it must be understood that some institutions are relatively overfunded compared to most others which do not receive their fair share of funds under the current distribution. For example, if SEOG funds were distributed on the basis of need as defined by the 1980 Amendments, about one-third of the current allocation would have to be redistributed from overfunded institutions to those which are underfunded.

BEST COPY AVAILABLE

We have concluded that this anomaly should not be corrected, because it is not a case of any institution receiving more than it needs. On the contrary, all institutions have far more need for campus-based funds than they actually receive: institutional applications for SEOG show a need for some $4 billion dollars more than appropriated. We see no benefit in reducing funding for some institutions so that their needy students will be less well served, to redistribute it to other institutions so that they can provide somewhat less inadequate assistance to their students.

Instead, we would address the inequity by assuring that future appropriations increases go first to those institutions which are relatively underfunded. It may be argued that this will create another inequity, by barring numerous institutions from further campus-based funding for the indefinite future (indeed, under any reasonable expectation of future increases, several hundred institutions would never receive an increase because their current hold-harmless is so much in excess of their need relative to other institutions). We believe that this is a specious argument. If the campus-based programs are to serve their objectives more effectively additional funding must be alloted on the basis of relative need, and institutions which have received proportionately greater funding in the past should not expect to receive additional benefits automatically in the future.

Following is a summary of our other recommendations for the campus-based programs and SSIG:

SUPPLEMENTAL GRANTS

Next to Pell Grants the Supplemental Educational Opportunity Grant (SEOG) program is the most important, providing essential support for some 727,000 needy students attending higher-priced public and independent institutions. To maintain an equitable balance of assistance for students in all sectors of higher education, we believe that funding of the two programs should have a more systematic relationship. Therefore we recommend:

The SEOG appropriation should be tied to Pell Grant funding at a level of at least 15 percent of the appropriation. The availability of SEOG funding is essential to help make it possible for needier students to have an opportunity to attend higher-priced public and independent institutions. Sudden restriction of such opportunities would be avoided if SEOG appropriations were automatically tied to Pell funding. We recommend that this relationship be established at approximately the current ratio of funding for the two programs. By recognizing that SEOG funding is inseparable from Pell funding, it becomes unnecessary to maintain the current trigger levels which are objectionable to the Appropriations Committees. Instead of raising a policy issue for those committees, the recommendation would simplify their work by consolidating the line items for Pell and Supplemental Grants.

The SEOG program should be targetted on students with exceptional financial need, defined as those whose family contribution does not exceed half their cost of attendance and whose family income does not exceed 200 percent of poverty (approximately $25,000, the median family income). An exceptional need requirement was formerly a part of the law, but was deleted in 1980. It should be reinstated to assure that funds are concentrated on students who would be unable to attend the institution without substantial grant assistance in addition to Pell Grants. Without this requirement, institutions in recent years have tended increasingly to award SEOGs in small amounts to middle-income students.

Existing provisions differentiating between initial year and continuing SEOG awards should be repealed. These provisions have not served a practical function in recent years, and in fact have been ignored by the Appropriations Committees.

COLLEGE WORK-STUDY

Assuring self-help opportunities for almost a million students is the vital function of the College Work-Study program. We propose no substantive changes in this program, but make one technical recommendation related to our request for elimination of the state allocation formula. In implementing this change, we would maintain the current reservation of the first 50 percent of reallocated CWS funds for cooperative education programs under Title VIII. This useful incentive for expansion of a related program is worth preserving.

NATIONAL DIRECT STUDENT LOANS

We support a continued institutional role in lending under the National Direct Student Loan program. We propose that priority for Direct Loans be given to low-income students, for several reasons: (1) the benefits of combining loan origination

with counseling by the financial aid officer at the time aid is packaged, (2) the ability of the aid officer to adjust loan size for the individual student, making small loans which are not attractive to commercial lenders, and (3) the flexibility which the institution has to grant forebearance during repayment. We believe that these are important factors in justifying the continuation of NDSL even while making GSL entirely need-based.

NDSL is still important as a supplemental program geared to needier students, assuring the availability of smaller loans and more flexible terms than may be available under GSL. Institutions have an incentive to make small loans, rationing scarce capital and thereby student debt. The incentives for commercial lenders are quite the opposite: to make large loans and reduce their number of transactions.

In addition, the federal cost for Direct Loans is competitive with that for Guaranteed Loans, and could be substantially less expensive with minor modifications. A recent study prepared for ACE by Arthur Hauptman analyzes the savings which would accrue from four options for reducing NDSL program costs: raising the interest rate charged to borrowers from 5 to 8 percent, lowering the federal share of new capital from 90 to 75 percent, requiring colleges to use loan servicing agencies, and eliminating the loan cancellation provisions for teaching and military service. Hauptman estimates that both NDSL and GSL cost the government about 50 cents for every dollar loaned over the life of the loan, but that federal costs for NDSL could be reduced by 17 cents, (35 percent) if each of the cost-saving options were implemented. Copies of the study, *Federal Costs For Student Loans: Is There A Role For Institution-Based Lending?*, have been sent to all members of the Subcommittee for your further consideration of these suggestions.

STATE STUDENT INCENTIVE GRANTS

The SSIG program should be maintained as a useful incentive for States to make their own contribution to the support of needy students. We suggest an amendment to permit States to use their allotments in excess of current levels to support State work-study programs and/or public service programs which provide payments toward meeting college expenses. We believe it is desirable to encourage further state development of such programs in addition to or in lieu of additional SSIG funding.

Mr. FORD. Thank you.

Mr. O'Neill.

STATEMENT OF JOSEPH O'NEILL, EXECUTIVE DIRECTOR, CONFERENCE OF SMALL PRIVATE COLLEGES

Mr. O'NEILL. Mr. Chairman and members of the Subcommittee on Postsecondary Education, my name is Joseph P. O'Neill. I'm executive director of the Conference of Small Private Colleges, based in Princeton, NJ.

We have, roughly, 130 members, most of whom are very small. Enrollments of under 750, some under 500.

For that reason, we have become specialists in institutional pathology. We have a book on how to close a college in an orderly fashion. And we currently engaged—we only send that out under a brown paper wrapper. We are currently engaged in a major study of institutional mergers and affiliations.

When we look at the campus-based aid, we recognized it as the—an important, flexible way that small colleges are able to distribute student financial aid to their most needy students.

I would like to go through the recommendations that NAICU has made and add a few parenthetical comments of my own.

We obviously recommend the continuance of the SEOG Program. But we recommend that the language be restored that targets SEOG funds on students with the greatest need for such funds.

Our proposal would limit SEOG funds to students whose family contribution is less than one-half of the cost of education at that institution.

We also recommend that the funding levels be coordinated between Pell grants and SEOG, so that the SEOG appropriation be no less than 15 percent of the appropriation of Pell grants. I believe that is roughly the level that it is at currently.

Along with that proposal, we would reinstate a matching requirement for SEOG to ensure an institutional commitment. Our proposal would require the institution to match the Federal share of each student's SEOG award with a like amount from funds not provided or subsidized by programs authorized by title 4 of the Higher Education Act. These might be State appropriations. They might be aid funded by the college itself.

We also recommend a restoration of the limitation on the number of years a student may receive an SEOG award.

And we would urge you, Mr. Chairman, to consider applying such satisfactory progress limitations to all programs of Federal student aid authorized under title 4.

As Mr. Saunders has raised the question of allocation, it is clear that over the years allocation has been skewed. And I came across it in a very curious situation.

I'm helping two colleges in Minnesota go through a merger process. And in a merger one of the corporations is dissolved. And in that dissolution you would also lose your eligibility for funds under title 4.

The problem is that those students who are currently enrolled with current student aid packages, we're not sure what kind of package they would have after a merger, because with the skewing of aid between institutions it is almost impossible for us to guarantee future students the same level of award.

We would also be clear that in the allocation formula, if it is changed, that dramatic shifts of funds among institutions should not be allowed, but that no institution receives less than it utilizes in the 1985–86 academic year.

My final proposal under the process would be to avoid perpetuating an aberration of the former allocation system that existed prior to 1979. Under the former procedure, some institutions received allocations involving higher percentages of their need than did others.

The new allocation procedures that went into place in 1979 were not followed by all institutions, causing some to receive lower conditional guarantees. And because this hold harmless was based on the 1979 allocation, some institutions continue to receive less than their computed fair share. And I believe that's the case of Saint Ambrose in Davenport, though I'm told that this year their allocation went up by some 26 percent.

We would continue. We would recommend that the College Work-Study Program continue as it is without change. And we would also recommend a continuation of the National Direct Student Loan Program, which provides loans, low-cost loans, to students.

We would make one recommendation, however, in the NDSL Program that it be renamed. We suggest that the principal advo-

cate for the past 27 years of this program, Carl Perkins, the late chairman of the Education and Labor Committee, that these loans be named after him, and it would be an eloquent acknowledgment of his efforts over the years.

We recommend a continuation of the State Student Incentive Grant Program with the addition that a work-study component be added to the current program.

And with that, Mr. Chairman, I conclude my remarks. Thank you.

[The prepared statement of Joseph P. O'Neill follows:]

PREPARED STATEMENT OF JOSEPH P. O'NEILL, EXECUTIVE DIRECTOR, CONFERENCE OF SMALL PRIVATE COLLEGES

Mr. Chairman and members of the Subcommittee on Postsecondary Education, my name is Joe O'Neill. I am Executive Director of the Conference of Small Private Colleges, an organization of approximateiy 130 nonprofit, private colleges with enrollments of under 1500. Our members are in every state in the nation. The Conference's member colleges typically have little endowment. Tuition and fees ordinarily account for 85 percent or more of their income. Federal policy on student financial aid is therefore crucial to their survival. All of our members are also members of the National Association of Independent Colleges and Universities.

I am pleased to appear before you today to present the views of the NAICU membership on several policy issues you are considering for the Supplemental Educational Opportunities Grant, College Work Study, National Direct Student Loan, and State Student Incentive Grant programs. We submitted our recommendations for reauthorization of the Higher Education Act to the Chairman and to the Ranking Republican Member on April 30, and I have attached to my testimony a summary of those recommendations. And, I would note that we generally support the testimony of the American Council on Education on those matters described as consensus positions.

But before I discuss our recommendations and our reasons for making them, I'd like to give you some background on the National Association of Independent Colleges and Universities, and provide you a snapshot view of student financial assistance as it existed on our campuses during the 1983-84 academic year, the last year for which complete data are available.

NAICU is an organization of 850 independent, nonprofit colleges and universities, and state, regional, or other special-purpose organizations, based here in Washington, DC to provide a unified national voice for independent higher education.

Independent colleges account for more than 80 percent of all colleges with enrollments of less than 500, virtually all of the single-sex colleges, the majority of all historically black colleges, all church-related colleges, more than 70 percent of all institutions that require a combined SAT score greater than 1,000 for admission, and many of the great international research universities. Last year, independent institutions enrolled 2.6 million students (approximately 21 percent of all students enrolled in higher educational institutions), and the 1984-85 price of education—the amount actually charged to students at registration—averaged $9,022, including an average tuition and fee charge of $5,016.

What we charge our students is a more accurate reflection of the actual cost of the education offered than is the case in other types of higher education because our institutions do not receive the direct operating subsidies provided by state taxpayers to reduce the tuition charged to public-sector students. Less than one-fifth of revenues for independent colleges and universities comes from governmental—federal, state, or local—funds, while income from tuition, fees, and services (bookstores, campus housing, etc.) extended to students contributes more than 63 cents of every dollar of operating revenue at our institutions. And from that operating revenue, our colleges and universities provided almost $2 billion in 1983-84 directly to their students in the form of institutional student financial aid!

And, I would also note a fact that relates to the quality of our enterprise: although we enroll only 21 percent of all college students, we award 33 percent of all bachelor's degrees, 39 percent of all master's degrees, 37 percent of doctoral degrees, and 59 percent of all first professional degrees.

Our research arm, the National Institute of Independent Colleges and Universities, conducted its fourth annual student aid survey for academic year 1983-84 of

5,416 actual student records using a stratified random sample of all independent institutions. NIICU found that—

104 million students in independent colleges and universities (63 percent of all students in the independent sector) received student assistance from the federal government, their state government, their institution, or some other private source.

84 percent of these recipients (1.2 million students)—almost half of all independent sector students—received some form of federal aid.

70 percent of all federal recipients were dependent on their families for support, receiving an average of $1,920 per student toward their college expenses, or 22 percent of the average price of education.

96 percent of our dependent federal aid recipients attend for the full academic year, and 61 percent live on campus.

More than 80 percent of our recipients were between the ages of 18 to 24.

The average family income of all recipients of federal assistance in independent colleges and universities was $22,100, and if we exclude GSL-only recipients, the average family income was $17,600.

What we found in terms of the type of assistance they received was most disturbing, especially when compared to the surveys NIICU conducted in 1978–79, 1979–80, and 1981–82. The participation rate of our needy recipients in the Pell Grant program declined from the high water mark of 66 percent in 1979–80 to 39 percent in 1983–84, and average Pell Grant awards increased only slightly from $974 in 1979 to $1,164 in 1983. Similarly, for the Supplemental Education Opportunity Grants program (the other major federal need-based grant program), the percentage of recipients/average award declined from 31 percent/$694 in 1979–80 to 20 percent/$650 by 1983–84 academic year.

Low-interest National Direct Student Loans declined dramatically, and work-study opportunities, together with state need-based aid, declined slightly over the same period. Even with institutions struggling to fill the gap by increasing their own need-based student aid, the results of the reduced grant participation rates and average awards, and the declines in other programs, were predictable—more need students in independent colleges and universities found themselves increasingly dependent on larger Guaranteed Student Loans to help finance their educations.

In that four-year period from fall 1979 to fall 1983, the percentage of dependent recipients borrowing a GSL had increased dramatically—from 15 percent to 57 percent, with the average loan also increasing from $1,787 to $2,249! More distressing was the fact that the lowest-income students (AGI of $6,000 or less) were as heavily dependent on GSL to meet their educational costs, with 57 percent from this lowest-income category borrowing an average of $2,259, as compared with 15 percent in 1979 borrowing an average of $1,400.

It is that factual background of diminished availability of grant assistance and greater reliance on loans for students attending or aspiring to attend independent colleges and universities, that caused our membership to adopt policy recommendations for reauthorization of the Higher Education Act designed to redress this imbalance between grant and loan support for needy students in general, and for the lowest-income students in particular.

That is why we developed a proposal to restructure the Pell Grant program to target the support on low-income students and insert price sensitivity into the basic structure of the program. That is why we recommended a revamped SEOG program that targets funding on students with the greatest need for funds, and ties appropriations for the two major federal grant proposals more closely together. And that is why we proposed that the GSL program be restructured to limit loans to need, with slightly increased maximum loan amounts for established students, with opportunities for students to consolidate their loans when they enter repayment under income-related payment schemes, and with loan amounts not reduced by arbitrary origination charges.

Let me now turn to the specifics of our recommendations for the Supplemental Education Opportunity Grant, College Work Study, National Direct Student Loan, and State Student Incentive Grant programs that are the subject of today's hearing.

All four programs have been of major importance to needy students attending independent colleges and universities since their creation. Low-interest NDSLs were authorized first as a part of the National Defense Education Act of 1958, enacted in response to a perceived competitive lack in American education prompted by the launching of the Soviet Union's Sputnik satellite. The Economic Opportunity Act of 1964 authorized the College Work Study program to stimulate and promote the part-time employment of students through matching grants to institutions to be used to pay student wages. SEOG, a program of matching grants to institutions to assist in making higher education financially possible for students of exceptional fi-

nancial need, was a creation of the Higher Education Act of 1965. And, in the landmark Education Amendments of 1972, Congress created the SSIG program as a federal incentive grant to states, matched dollar-for-dollar, to establish or expand state grant assistance to undergraduate students.

Because independent colleges and universities have higher tuitions than public institutions that receive direct governmental operating subsidies, our students also tend to have greater need for these supplemental student aid programs. This fact has caused our students to rely heavily on the three campus-based programs and the SSIG program to assist them in meeting their college costs.

Mr. Chairman, we remain committed to the original goal of the Higher Education Act of 1965, and subsequent reauthorizations, of equalizing higher educational opportunity for all students with need by providing access to all types of higher education. Grant aid was intended to be focused on low-income students, with only modest awards also available to needy students from middle-income circumstances. The major federal student financial assistance for middle-income students was intended to be in the form of low-interest loans. We also remain committed to that strategy and offer our suggestions for amendments to the campus-based programs and SSIG with that goal and that strategy in mind.

SUPPLEMENTAL EDUCATIONAL OPPORTUNITY GRANTS

We recommend a continuation of the Supplemental Educational Opportunity Grant program which has provided needed grant aid to students attending independent colleges and universities.

The SEOG program is one of three federal programs known as "campus-based" because they are administered by the educational institution. Combined with the other two campus-based programs (College Work Study and National Direct Student Loans), the SEOG program helps provide some measure of choice to those needy students whose aspirations and abilities direct them to a higher priced state or independent college or university.

The minimum SEOG award is $200 and the maximum is $2,000 per year. Awards are limited to students who are enrolled at least half-time as undergraduates at their respective institutions and who maintain "satisfactory progress," and who have financial need. Institutions may use 10 percent of their SEOG funds to make awards to undergraduate students who are enrolled less than half-time.

Target on students with greatest need—We recommend a restoration of language that targets SEOG funds on students with the greatest need for funds. Our proposal would limit SEOG funds to students whose family contribution is less than one-half the cost of education at the institution. It is similar to the practice that existed prior to 1980, but does not contain the additional regulatory restriction that caused undue burden on financial aid administrators and resulted in the repeal of targeting language in 1980. That burdensome restriction also required aid administrators to decide who, among equally needy students, would not be able to attend the institution "but for" the SEOG award. We believe the cost and need limitation we propose is sufficient to target aid on the neediest students without imposing arbitrary income caps on eligibility.

Funding levels—We recommend statutory language to tie SEOG appropriations to the other major federal need-based grant program, Pell Grants. Our recommendation would set the funding relationship between the two major federal grant programs at current levels, by requiring that SEOG appropriation be no less than 15 percent of the appropriation for Pell Grants. Currently, the statute requires SEOG to be funded at certain levels before the Pell Grant maximum award and percentage-of-cost limitation may increase. This mechanism has become cumbersome to the appropriations committees and has resulted in appropriations bills waiving that part of the statute. We believe the proposed mechanism will provide appropriations growth that responds better to the demonstrated need for SEOG funds.

Institutional matching provision—Along with that proposed mechanism to assure growth in federal funding for both major grant programs, we also propose to reinstate a matching requirement for SEOG to assure an institutional commitment. Our proposal would require the institution to match the federal share of each student's SEOG award with a like amount from funds not provided or subsidized by programs authorized by title IV of the Higher Education Act. We believe this mechanism will make each participating institution a true partner with the federal government in providing need-based grant assistance and will also increase the amount of such available aid. Prior to 1980, institutions were required to match the federal share of the SEOG award. But because that provision allowed institutions to match the SEOG funds with other Title IV funds, it imposed an administrative burden on in-

stitutions with little or no actual benefit to students. It was properly repealed, but now should be replaced with a true matching provision that actually does increase aid to students.

Satisfactory progress—We recommend a restoration of a limitation on the number of years a student may receive an SEOG. Our proposal would restore the four-academic-year limitation on receipt of SEOG that existed prior to the enactment of the Education Amendments of 1980. We also propose reinstituting two important exceptions to that limitation that would allow for a fifth year of eligibility where students are enrolled in programs leading to a first degree which are designed by the institution to extend over five academic years or where the institutions require the student to enroll in a noncredit remedial course of study. Currently, the statute allows a student to receive SEOG assistance for the time required to receive a first undergraduate baccalaureate degree. That liberalization in the 1980 Amendments was not the result of recommendations from this subcommittee or from the House of Representatives, and it is something that we believe should be corrected in this reauthorization effort.

And, Mr. Chairman, we urge you to consider applying such a satisfactory progress limitation to all programs of federal student aid authorized by Title IV.

Allocation procedures—We recommend revising the formula used to allocate SEOG funds to institutions by basing it only on cost of education, family/student contributions, and federal grant funds provided by Pell Grants and SSIG. In addition, we recommend that you hold each institution harmless to the amount of SEOG funds it utilized in 1985–86 academic year. And finally, we recommend that any funds appropriated in excess of the FY 1985 appropriation level (those funds expended during academic year 1985–86) go to those institutions who have not received their computed "fair share" under the formula.

Currently the allocation procedure considers 75 percent of the expenses of needy students at an institution, and deducts from that amount the total expected family/student contributions, the total amount of Pell Grants available to students at the institution, the federal share of SSIG funds available to students at the institution, and 25 percent of the institutional student aid provided to help those students meet their need. The result of that calculation is the institution's need for SEOG funds. The need of all institutions in the nation is compared with the total available appropriation to determine an institution's "fair share." The total demonstrated institutional need for SEOG funds in 1984–85 was $4.3 billion, and the appropriation was only $375 million. Therefore, no institution receives its calculated need, but those institutions that provide institutional aid to their students have both their calculated need and their relative need reduced by a portion of the assistance they provide their students. The result is that the institutional aid added at the end of a needy student's package is taxed by the federal formula on the front end to reduce the federal aid that might be available to that student. That practice penalizes those institutions that are using their own limited revenues to help their students. We believe that practice is unfair and urge you to change the formula.

Our second recommendation about the allocation formula is designed to avoid dramatic shifts of funds among institutions by assuring that no institution receives less than it utilizes in the 1985–86 academic year. The institutional hold harmless was instituted in 1980 in an effort to avoid disruptive shifts of funds among institutions that would have resulted from regulatory changes in the allocation procedures implemented by the Office of Education in 1979. It has had that effect. With increased appropriations for SEOG provided in the FY 1985 appropriations act, we believe you should update the institutional hold harmless to academic year 1985–86 in order to ensure that no institution loses SEOG funds that it previously utilized because of the hold harmless provision is based on a six-year-old allocation, particularly since no institution is receiving what the formula says it needs.

Our final proposal involving the allocation process is offered to avoid perpetuating an abberation of the former allocation system that existed prior to 1979. Under the former procedure, some institutions received allocations involving higher percentages of their need than did other institutions. In addition, new allocation procedures went into place in 1979 that were not followed by all institutions, causing some institutions to receive lower conditional guarantees. But, because the hold harmless was based on the 1979 allocation, some institutions continue to receive less than their computed "fair share." None of them, however, receives more than its calculated need for SEOG funds. Our proposal would correct this systemic problem without disruption. We urge you to require that all new funds in excess of the FY 1985 appropriation go to those institutions whose "fair share" exceeds their "conditional guarantee" or hold harmless.

And, Mr. Chairman, we urge you to apply a similar procedure to the similar problem that exists with respect to allocations for the College Work Study and National Direct Student Loan programs.

COLLEGE WORK STUDY

We recommend a continuation of the College Work Study program which has provided needed work opportunities to students attending independent colleges and universities.

CWS provides assistance to undergraduate and graduate/professional students. The amount a student is allowed to earn is based on his or her financial need. Students are paid at least the minimum wage. The federal government provides 80 percent of the capital for the program and the institution must provide at least 20 percent.

There is no critic of the College Work Study program on college campuses, in Congress, in the Administration, in the press, or in the Government Accounting Office. With the exception of the needed changes in the allocation procedures mentioned above, we believe CWS is operating so effectively that we urge you to reauthorize the program as is.

NATIONAL DIRECT STUDENT LOANS

We recommend a continuation of the National Direct Student Loan program which has provided low-interest loans to students attending independent colleges and universities.

The NDSL program is a source of long-term (10 years) and low interest (5 percent) loans to undergraduate, graduate and professional students who meet financial need criteria. Undergraduate students may borrow up to $6,000 and graduate/professional students may borrow up to $12,000 (including all funds borrowed under NDSL as an undergraduate). Repayment begins six months after a student is no longer enrolled at an institution on at least a part-time basis. And, some of the loan principal may be cancelled for individuals who provide services in certain teaching areas or for members of the military serving in "areas of hostility."

Colleges, universities, and other postsecondary institutions apply to the U.S. Department of Education for allocations called Federal Capital Contributions (FCC), which make up 90 percent of the loan, with the other 10 percent provided by the institution. The institution makes the loan to a student and acts as the collector of the loan when the student begins repayment. Repayments remain at the institution in a "revolving fund" which may be used to make additional loans.

We urge you to consider only one change in NDSL in addition to the changes proposed above in the allocation procedures: to rename the program for its principal advocate for the past twenty-seven years, Carl D. Perkins, the late Chairman of the Education and Labor Committee. Perkins Loans would be a simple yet eloquent acknowledgement of the constant effort Chairman Perkins expended in every higher education markup, floor vote, and conference committee session to maintain a low-interest federal loan program, administered on campus by financial aid administrators who could get to know the special circumstances of each needy recipient.

STATE STUDENT INCENTIVE GRANTS

We recommend a continuation of the State Student Incentive Grant program that provided needed federal-state matching grants to students attending independent colleges and universities.

SSIG is a 50–50 (state-federal) cost sharing program where federal funds are alloted based upon a formula which reflects current student enrollment patterns.

The maximum grant permitted under the SSIG program is $2,000 per academic year. States have a wide latitude in their selection of grant recipients. Some states determine grant levels by calculating the difference between the student's resources and the cost of attending his or her particular institution. Other states determine need based on income and give larger awards to those students with the least resources.

We urge you to enhance this federal-state partnership by authorizing a work study component to the existing program. Our proposal would allow states to use up to half of any new allocations above the FY 1985 level to establish or sustain a federal-state matching program offering work study opportunities in a manner similar to the existing CWS program. Some states already are experimenting with the concept of state work study programs, and a federal effort at this time could have the

same results as the original SSIG program had in stimulating state efforts to provide need-based student aid.

Mr. Chairman, I appreciate the opportunity to appear before you today and will attempt to respond to any questions you or other members of the subcommittee may have about our proposals.

NAICU RECOMMENDATIONS FOR REAUTHORIZATION OF THE HIGHER EDUCATION ACT

TITLE IV—STUDENT ASSISTANCE

Student Grant Programs—Continue the existing federal policy goal that every eligible student shall receive aid under the Pell Grants, SEOG, and SSIG programs that, in combination with reasonable parental and student contributions, will be sufficient to meet 75 percent of a student's cost of attendance.

Pell Grants—Restructure Pell Grants in order to resolve the long-standing conflict among sectors of higher education over percentage-of-cost limitation/maximum award/funding triggers for other programs by instituting a new Pell Grant formula. The formula would target the program on low-income students and insert price sensitivity into the basic structure of the Pell Grant program, basing eligibility on a two-part formula: (1) half of tuition, mandatory fee, and book expenses for all eligible low- and middle-income students, up to a maximum of $2,100 plus (2) a substantial allowance to cover living expenses for all low-income students, up to a maximum of $2,100. This mechanism would award substantial grant dollars to low-income students for their living expenses plus half of their tuition expenses in order to assure their access to all types of higher educational opportunities, but would limit the participation of middle-income students to just half the "price" charged to them.

The proposal assumes the same taxation rates on discretionary income for dependent and independent students in order to provide substantial grants to low-income students and a $200 minimum award to a student from a typical family of four with one in college and an adjusted family income of $30,000.

Supplemental Educational Opportunity Grants—Reauthorize the SEOG program with a funding authorization of no less than 15 percent of the appropriation for Pell Grants. Target SEOG funding on students with greatest need for funds (defined as those students whose expected family contribution is less than one-half of their total cost-of-education). Maintain institutional "hold harmless" level at amount institution used in academic year 1985–86 (fiscal year 1985 appropriation). Allocate all new funding above the fiscal year 1985 level only to those institutions whose institutional "Fair Share" exceeds their institutional "Conditional Guarantee". Reinstitute institutional matching requirement in program, with matching funds to come from non-federal sources. Drop use of institutionally-provided need-based student grants and awards from formula used to determine institutional need for SEOG.

State Student Incentive Grants—Reauthorize the program and allow states to use up to 50 percent of new allocations, above fiscal year 1985 level, to establish or sustain a 50/50 federal/state matching work-study program.

College Work-Study—Reauthorize the program without changing the language that limits CWS to non-profit institutions, without changing the existing reallocation procedures, and without consolidating the program with Cooperative Education. Allocate new funding above the FY 1985 level as in SEOG (see above).

National Direct Student Loans—Reauthorize the program and rename the program for its principal advocate, the late chairman of the House Education and Labor Committee, Representative Carl D. Perkins.

Guaranteed Student Loans—Reauthorize the program increasing the annual loan limits for those undergraduates who have completed their first two years of study toward a bachelor's degree and for graduate students to $5,000 and $8,000, respectively. Aggregate limits are increased to $20,000 for undergraduates and an additional $25,000 for graduate students. Limit all loans to need remaining after all federal grant, work, and loan benefits, together with all expected parental/student contributions are taken into account. Provide for borrower-requested consolidation of student loans. Repeal the origination fee. Provide for a federally-guaranteed, but not federally-subsidized, "loan of last resort."

PLUS Loans—Reauthorize the PLUS loan program making it more attractive to lenders, and therefore a more viable program for borrowers, by allowing consolidation or refinancing of loans, and by allowing secondary markets to adjust payment schedules with the borrower.

Master Calendar—Establish a master calendar for the delivery of student aid in order that the student aid system may function smoothly.

Verification—Require verification documentation to be submitted on all federal student aid applications.

TITLE III—INSTITUTIONAL AID

Reauthorize program with three separate parts: Grants to strengthening institutions, grants to Historically Black colleges and universities, and Endowment grants. Alter eligibility criteria to include a wider body of institutions. Expand permissible uses of grant dollars to include recruitment activities and training of administrative staff. Make Cooperative Arrangements a high priority funding area with more lenient restritions on participation.

TITLE VII—CONSTRUCTION, RECONSTRUCTION, AND RENOVATION OF ACADEMIC FACILITIES

Reauthorize title with emphasis on renovation rather than new construction. Increase funding authorization to reflect the increasingly critical need for assistance in this area. Streamline title by deleting unfunded provisions for loan insurance and interest grants. Delete community college setaside provision so that all types of institutions compete equally on the merits of their applications.

Mr. FORD. Thank you very much.

Mr. Sandler, we had you as one our witnesses when we were at Washington University.

Mr. SANDLER. Yes, Mr. Chairman.

Mr. FORD. It's a pleasure to have you before the committee again. We didn't get to talk about this subject when we were out there.

STATEMENT OF BENJAMIN SANDLER, DIRECTOR OF FINANCIAL AID, WASHINGTON UNIVERSITY, ST. LOUIS, MO

Mr. SANDLER. Speaking more for myself on May 31, now for COFHE, the Consortium on Financing Higher Education.

I'm pleased to be here this morning, Mr. Chairman. My name is Benjamin Sandler. I am director of financial aid at Washington University in St. Louis, MO.

COFHE is an association of 30 independent colleges and universities that are concerned with the continued ability of students and families to consider, select, and enroll at higher priced colleges and universities.

Mr. Chairman, the consortium membership first urges the subcommittee to maintain and strengthen each of the three campus-based programs, and to reject recommendations that would consolidate or eliminate any of the programs in the name of simplification.

Each of the three campus-based programs provides our institutions with a critical element of flexibility as we go about the task of packaging student aid awards.

Having said this, we do agree with many others in the higher education community that there are various improvements that can be made to strengthen the programs and, at the same time, improve equity among eligible institutions and serve students even more effectively.

For example, it is generally acknowledged within the higher education community, as the testimony of the two previous speakers demonstrates, that the current State allotment and institutional allocation formulas simply are not working in the best interest of the programs. Under the present system, as appropriations fluctuate up or down, each State's funding increases or decreases can be sharply out of proportion to the change in appropriations. As a

result, institutions within certain States are often adversely affected.

Only the presence of the conditional guarantee keeps the inequities of the State allotment formula from being more fully realized.

Mr. Chairman, we believe certain steps can be taken to address this problem. First, we recommend the elimination of the State allotment system in favor of a procedure in which all eligible institutions would compete nationally without regard to State borders for funding in each of the programs. In order to accomplish this task, certain institutional guarantees should be adopted in the interest of fairness to assure that no State or institution is penalized by a change in funding allocation policy.

We recommend that all institutions be guaranteed or held harmless at 100 percent of the funding level they receive and use in fiscal year 1986.

If appropriations should, at some future point, become inadequate to meet the minimum guarantees of all institutions, then the allocation procedure should ensure that all institutional awards would be reduced proportionately to the reduction in the appropriations process.

Beyond the setting of certain guarantees for each institution, there is the question of how each institution's need for funds and, therefore, its eligibility for support beyond its guarantee should be set.

When appropriations are large enough to more than meet all guarantees, we believe the procedure for allocating the additional funds should be altered so as to restore some equity in the distribution of these funds. Currently, many institutions, many deserving institutions are prohibited from participating in this additional allocation because the Department of Education asserts that their institutional guarantees are greater than their so-called fair shares, greater than what they ostensibly deserve.

My colleagues have advocated that such institutions should, of course, be barred from receiving any additional funds because they are already getting through the guarantee more than they deserve.

The issue, though, is how reliable the measure of deservingness is. That measure is the result of a formula that, because it's applied to all institutions across the country, in a variety of circumstances, is unavoidably simplistic and can't possibly be responsive to every institution's particular idiosyncratic configuration and needs.

Therefore, we urge some consideration, Mr. Chairman, for additional funding for sone institutions whose—even those whose conditional guarantees may be greater than what they supposedly deserve.

We recommend that if funds remain to be allocated after guarantees have been met this additional allocation should be made by comparing the formula calculation of instituional needs, also, of course, taking into consideration the size of each instituion's existing guarantee.

Within the specific domain of the SEOG Program, we have a philosophical concern and a technical one. On the philosophical side, we agree with others in the higher education community that the SEOG Program would be given greater focus and its political

support would be more effectively served if the exceptional need criterion that was originally in the law is reinstated.

Thus, we recommend that eligibility for SEOG funding be limited to those students with exceptional need, defined as any student whose family or independent student contribution is less than one-half the cost of attendance.

We respectfully disagree with the definition of exceptional need proposed by the American Council on Education, among others, which ties eligibility to such arbitrary criteria as Bureau of Labor Statistics standards.

The original definition, with its correct sensitivity to cost, worked well in the past and should simply be reinstated.

On the technical side, we believe considerable regulatory mischief could result from regulatory reinterpretation of the provision in the current SEOG statute in which to calculate institutional eligibility for SEOG support 25 percent of institutional scholarships and grants are subtracted from the SEOG need index.

The consortium membership has no quarrel with the purpose and intent of this provision. But it concerns us that the current legislation mentions no date with respect to the year in which 25 percent of institutional grant aid should be counted.

A decision by the Department of Education to move this year forward from the current 1977-78 to a more recent date would severely and unfairly penalize the many hundreds of institutions that have made tremendous strides and, I might mention, sacrifices in increasing their own grant aid commitment since that time.

Although my testimony, Mr. Chairman, has focused primarily on the allotment and allocation formulas and certain special concerns with the SEOG Program, I want to emphasize in closing our belief that the College Work-Study and NDSL Program are no less important.

Concerning the College Work-Study Program, except for needing certain modifications in its distribution formula, as mentioned earlier, we believe it is a model Federal program that should be expanded and funded at the highest possible levels.

In the NDSL Program, we recommend that the revolving funds amassed from the repayment of previous NDSL borrowers be made a permanent financial aid resource at the institutional level, and that additional flexibility be provided in the use of these funds for financial aid and loan purposes.

For example, an institution might make use of the funds in ways that assist in the development and support of alternative, non-Federal loan programs, or that assist the neediest students by providing subsidies for such programs, or that, in special cases, would make additional grant or work dollars available to students who should not be assuming excessive debt burdens.

Mr. Chairman and members of the subcommittee, I appreciate the opportunity to appear before you this morning and I will be pleased to answer any questions.

Thank you.

[The prepared statement of Benjamin Sandler follows:]

PREPARED STATEMENT OF BENJAMIN SANDLER, DIRECTOR OF FINANCIAL AID, WASHINGTON UNIVERSITY, ST. LOUIS, MO, ON BEHALF OF THE CONSORTIUM ON FINANCING HIGHER EDUCATION

Good morning. I am grateful for the opportunity to appear before the Subcommittee on Postsecondary Education of the U.S. House of Representatives this morning and to testify on behalf of the membership of the Consortium on Financing Higher Education (COFHE). My name is Benjamin Sandler and I am Director of Financial Aid at Washington University in St. Louis, Missouri which is a member of COFHE, an association of thirty independent institutions concerned with the continued ability of students and families to consider, select, and enroll at higher-priced colleges and universities. Our membership is located in fourteen states across the country and as a group we currently enroll approximately 110,000 undergraduate students. A list of the membership of COFHE is attached to my written statement.

I welcome this opportunity to comment on various aspects of the three campus-based programs—Supplemental Educational Opportunity Grants (SEOGs), College Work-Study (CWS), and the National Direct Student Loan program (NDSL)—and related allocation and delivery formulas, because each of these programs continues to serve Washington University and other independent and public institutions in ways that are critical to our students. Student aid "packaging" as it is practiced at Washington University and many other institutions nationwide, requires a diverse mixture of grants, loans, and work opportunity in order that the burden of paying for college is a shared enterprise involving students, parents, institutions, state governments, and the federal government. Our financial aid policies also assure that we achieve a maximum use of limited funds to make certain that educational opportunity is made available to the greatest possible number of students. The campus-based programs are an essential part of that mixture.

We have collaborated closely with other institutions within the Consortium to develop various recommendations for reauthorization of Title IV of the Higher Education Act and these recommendations were submitted to this Subcommittee on April 30. As you review these proposals, we would be pleased to provide whatever assistance we can to the Subcommittee and your staff as you go about the task of improving and strengthening all of the student aid programs. Although we also have important concerns with other aspects of Title IV, I shall limit my remarks this morning to the COFHE recommendations which cover SEOG, CWS, and NDSL.

As institutions that strive to offer educational opportunity to students from the widest possible range of socio-economic circumstances, the Consortium membership first urges the Subcommittee to maintain and strengthen each of the three campus-based programs and to reject recommendations that would consolidate or eliminate any of the programs in the name of simplification. Each of the three campus-based programs provides our institutions with a critical element of flexibility as we go about the task of packaging student aid awards. The loss of any one of the programs or any reduction in the flexibility which we currently enjoy would diminish our ability to provide a comprehensive package of grants, loans, and work opportunity to the more than 50 percent of students attending COFHE institutions who receive financial assistance. Having said this, we do agree with many others within higher education that there are various improvements which can be made to strengthen the programs and at the same time improve equity among eligible institutions and serve students even more effectively.

It is acknowledged within higher education that the current state allotment and institutional allocation formulas simply are not working as intended. This observation has been underscored by the fact that statutory language has had to be modified during the appropriations process in each of the past several years in order to maintain funding equity both to states and to institutions. We believe the time has come, Mr. Chairman, to do several things to make allotment and allocation procedures more equitable and to establish statutory provisions that contemplate both the implications of the recent *Chada* decision and the possibility that future appropriations for these programs may not be adequate to meet the demand.

As was demonstrated by the need for additional NDSL funds in the most recent supplemental appropriation, the current state allotment formula does not treat all states equitibly. Under the present system, as appropriations fluctuate up or down, each state's funding increases (or decreases) can be sharply out of proportion to the change in appropriations. As a result, institutions within certain states are often adversely affected.

Only the presence of the guarantee (which, absent the recent Rudman amendments, would be phased out in the SEOG program) keeps the inequities of the state allotment formula from being more fully realized.

Mr. Chairman, we believe certain steps can be taken to address the problem. First, we would recommend the elimination of the state allotment system in favor of a distribution procedure whereby all eligible institutions would compete nationally, without regard to state borders, for funding under each of the programs. In order to accomplish this task, certain guarantees must first be adopted in the interest of fairness to assure that no state or institution is penalized by a change in funding allocation policy. In this regard, we would recommend that all institutions be guaranteed or "held harmless" at 100 percent of the funding level they received and used in fiscal year 1986. This guarantee would insure that each institution would be provided with a minimum of funding that is equal to its most recent award level. Simultaneously it would insure that all states and territories would receive a 100 percent guarantee, since the state guarantee would be the sum of all institutional guarantees in that state for the designated fiscal year. Special language to accommodate eligible institutions outside the 50 states could also be eliminated, because all institutions would be protected in all states and territories.

In the event that any of the programs were to experience significantly reduced funding to the point where these could not be met, we recommend that a small percentage of the appropriation be set aside and used, as needed, to fund institutions new to a program. In the event that appropriations were adequate to meet both the 100 percent guarantee and the needs of new institutions, such a reserve pool of funds would not be necessary, and it would revert to the regular pool of funds for distribution under the regular allocation procedure.

Additionally, language should be inserted so that, in the unfortunate event that appropriations become inadequate to meet the minimum guarantee of all institutions, the allocation procedure insures that all institutional awards, (and states thereby) would be reduced proportionate to the reduction in the appropriations process, again with the modest reserve pool for new institutions still in effect. This provision would effectively eliminate the confusion over equitable reductions in funding that has most recently resulted in the adoption of the so-called "Rudman amendments" in the appropriation process. Such language would assure that states and institutions are treated equitably in the event of severe funding reductions.

Having eliminated the need for state allotment formulas by: 1) establishing state and institutional hold-harmless provisions; 2) making accommodations for new institutions; and 3) providing for a ratable reduction formula in the event of severely reduced appropriations, the statutory language relating to the development of a formula for distribution of funds to institutions can then be further codified.

In our view, the allocation formula should continue to reflect the basic outline contained in the present statutes, but new language should leave as little discretion in the hands of the Secretary of Education as the legislative process will allow. Each institution's share of the national appropriation, after accommodating both currently participating institutional guarantees and new institutions' needs, should be arrived at by comparing a school's "need index" to the sum of all institutions' need indices nation-wide. Such an index should continue to reflect the widely accepted notion that 25 percent of "need" should be met via "self-help", leaving 75 percent to be met via various grant aid resources, including SEOG.

When appropriations are large enough to meet more than all guarantees, the procedure for allocating additional funds must be overhauled in order to restore an equitable distribution. Currently, many institutions are prohibited from participating in this additional allocation because the Department of Education asserts that institutional guarantees are greater than their need index; i.e., greater than what they ostensibly deserve. The problem is that what is "deserved" is calculated by a formula that is, by universal admission, an unavoidably simplistic device that cannot be sensitive to every institution's particular configuration and needs.

We recommend that, if funds remain to be allocated after all guarantees have been met, this additional allocation should be made by comparing the formula calculation of all institutions' needs. Thus, all institutions are compared on the same footing, and all institutions and their needy students will be able to benefit to some extent when appropriations increase. This modification will end the current system, in which competition for additional funds is limited on the basis of a formula calculation that cannot possibly be sensitive to the needs of all institutions.

Second, within the specific domain of the SEOG program, we would bring to your attention certain recommendations and concerns of ours one of which is philosophical and one technical. On the philosophical side, we agree with others in the higher education community that the SEOG program would be given greater focus and its political support would be more effectively served if the "exceptional need" criterion that was originally in the law be reinstated. Thus we recommended that eligibility for SEOG funding be limited to those students with exceptional need, defined as any

student whose family or independent student contribution is less than one-half the cost of attendance. Students with greatest need should have first access to limited SEOG funds in order to lower their debt burdens and so as to offer such students a better prospect of attending the institution of their choice. We do not agree with the definition of exceptional need as proposed by the American Council on Education, among others, which ties such criteria to Bureau of Labor of Statistics standards. The original definition, with its sensitivity to cost, worked well in the past and should simply be reinstated. We also recommend, as a corollary to this re-focus on the neediest students, that the annual maximum grant be raised to $4,000. We would recommend this for two reasons: 2) to encourage institutions to provide more grant aid to the most needy students; and 2) to reflect the fact that educational costs in both the public and independent sectors have increased significantly since the maximum was raised to $2,000 in 1980.

On the technical side, we believe considerable mischief could result from regulatory re-interpretation of the sentence in Section 413D(b)(1)(B)(ii) in which institutional aid in the amount of "25 per centum of grants and awards" is subtracted from the SEOG need index. As a group of institutions that collectively spend in excess of $200 million annually of our own institutional funds for grant aid, the Consortium membership has no quarrel with the purpose and intent of this provision. But it is disturbing to us that the clause mentions no date with respect to the year in which 25 percent of institutional grant aid shall be counted, and a decision on the part of the Department to move the year from its current 1977-78 academic year to a more recent data would have the effect of penalizing all institutions that have made significant strides in increasing their own grant aid commitment since that time. It would, for example have a devastating effect on my institution, Washington University, where the institutional grant aid commitment has grown from $3.8 million in 1977-78 to $10.5 million in 1984-85, a 176 percent increase in the past seven years. I would also point out in this regard, Mr. Chairman, that most of Washington University's grant aid commitment comes in the form of unrestricted funds. This year, for example, almost nine of every ten grant aid dollars came directly from operating expenses.

Although my testimony has focused primarily on the allotment and allocation formulas and certain special concerns with the SEOG program, I want to emphasize in closing, Mr. Chairman, that the College Work-Study and NDSL programs are no less important to us. Insofar as College Work-Study is concerned, except for certain modifications in the formulas, we believe it is a model federal program that should be expanded and funded at the highest possible levels. CWS should be given every opportunity to serve as many students as are ready and willing to work to help support the cost of their education.

In the area of the National Direct Student Loan program, we recommend that the so-called revolving fund be made a permanent financial aid resource at the institutional level and that additional flexibility be provided in the use of funds for financial aid and loan purposes. In the past, Mr. Chairman, COFHE has recommended that NDSL be merged with other federal loan programs in the interest of uniformity and simplicity, but in the current environment, we are won over by the argument that today an institution requires all the flexibility it can create in order to develop financial aid policies and programs that meet the needs of students from so many diverse socio-economic circumstances. NDSL continues to provide such an option. It is in the spirit of developing and improving this flexibility that we also recommend that the use of NDSL funds be expanded to permit institutions, within certain limits, to seek new uses of NDSL funds that will allow us to leverage these program dollars in the most effective possible way. An institution might, for example, make use of the funds in ways that assist in the development and support of alternative, non-federal loan programs, or that assist the neediest student by providing subsidies for such programs, or that in special cases would make additional grant or work dollars available to students who should not be in the position of assuming excessive debt burdens. In these and future times, all of us in the business of providing financial aid to students must adapt by becoming increasingly creative and flexible. Such additional capabilities within NDSL would assist us greatly in that effort.

Mr. Chairman and Members of the Subcommittee, this concludes my testimony. I thank you for the opportunity to appear before you and the other members of the Subcommittee this morning and I would be pleased to answer any questions you may have.

MEMBER INSTITUTIONS CONSORTIUM ON FINANCING HIGHER EDUCATION

Amherst College, Barnard College, Brown University, Bryn Mawr College, Carleton College, Columbia University, Cornell University, Dartmouth College, Duke University, Georgetown University, Harvard University, The Johns Hopkins University, and Massachusetts Institute of Technology.

Also Mount Holyoke College, Northwestern University, Pomona College, Princeton University, Radcliffe College, Smith College, Stanford University, Swarthmore College, Trinity College, The University of Chicago, University of Pennsylvania, The University of Rochester, Washington University, Wellesley College, Wesleyan University, Williams College, and Yale University.

Mr. FORD. Thank you, Mr. Sandler.

Mr. Mitchem?

STATEMENT OF ARNOLD MITCHEM, EXECUTIVE DIRECTOR, NATIONAL COUNCIL OF EDUCATIONAL OPPORTUNITY ASSOCIATIONS

Mr. MITCHEM. Mr. Chairman, members of the subcommittee, my name is Arnold Mitchem. I am the executive director of the National Council of Educational Opportunity Associations, an association which has as its central purpose to advance and defend the notion of equal educational opportunity in postsecondary education, and also to advance and defend the conception of compensatory education as it applies to postsecondary education.

I'm pleased, Mr. Chairman, to have the opportunity this morning to present the NCEOA's reasons for recommending to the subcommittee that the Supplemental Educational Opportunity grants be targeted upon low income, first generation college students, as defined by the TRIO subpart in current law.

Mr. Chairman, there are three reasons why the NCEOA is promoting this change in the Supplemental Educational Opportunity grant provisions.

First, and perhaps most important, given limited Federal resources—and all of us who have observed postsecondary financing in recent years can certainly appreciate that point—it seems—and, in part, I'm basing that point on a decline in Federal grants between 1977 and 1978—between the 1977-78 school year and the 1983-84 school year, according to the College Board, it declined from an absolute figure of $5.9 billion to $4.1 billion.

So, given these limited Federal resources, the rationale for any Federal role in postsecondary education is being potentially undermined if access and retention of the most disadvantaged students is not given special attention and protection by the Congress.

Equal educational opportunity is the rationale for the title 4 programs. And if Financial Aid Programs are not, in fact, promoting opportunity, questions are then raised about the Federal investment.

For example, in the 1979-80 school year, according to the Department of Education, more than 50 percent of SEOG funds went to students from families below $18,000. Today, almost two-thirds of the recipients of SEOG are from families above $18,000.

My second point is, the Congress has already defined and identified disadvantaged for purposes of access and retention in postsecondary education. This definition is found in the TRIO subpart. It is, simply, low income, meaning a student who comes from a family where the income is below 150 percent of poverty. Using an exam-

ple of a family of four, that would be an individual from a family below $15,000.

And first generation. First generation is defined as an individual who comes from a family where neither the mother nor the father have earned a baccalaureate degree.

Now, as I look at the history of postsecondary education, it seems to us that Congress has struggled for 20 years trying to define disadvantaged relative to college access and retention. Finally, in the Ed Amendments of 1980, they came up with a definition in terms of two factors, which, according to sociological research, strongly correlate with college completion, that is, a parent's income and a parent's education.

The third point I would like to make is, the applying this definition to SEOG, will, in our opinion, have a number of positive effects.

First. It will moderate or reverse the decline in college participation rates for certain categories of students. According to a recent study, and if you will look at the 18-to-24-year-old cohort, you will note, in terms of low-income students, that there has been a 17-percent decline; in terms of black students, there's been an 11-percent decline; in terms of Hispanic students, there's been a 3-percent decline.

Furthermore, this change will emphasize the positive characteristics which disadvantaged students bring with them to campuses. Which is, No. 1, their commitment to upward mobility, and, No. 2, their interest in making a better life for themselves and their families.

I would also like to say in this connection that one of the things it seems to us that Congress needs to take a look at is the labeling of some of the programs.

It's very difficult, as it was for me, standing in Potalis, NM, a couple of evenings ago, to look at a parent who has been struggling to provide a better opportunity for their child, at an Upward Bound banquet, and to refer to that parent or those students as disadvantaged.

So, I suggest to you that we shouldn't always use the rationales for policies, and we might consider trying to use some different labels. And I think it would give a better image to what we're trying to do, and certainly it would make the recipients of these programs feel much better than some of the terms that we currently throw around.

Finally, this change is likely to have the practical effect of promoting better working relations between TRIO staffs on 800 college and university campuses and student financial aid administrators on these same campuses.

Already, for example, we have a provision in current law where TRIO students receive full financial aid to the extent of need. It seems to me we need to build on that.

Finally, in the last 10 years, we have witnessed an erosion, an erosion in equal educational opportunity on our campuses. I believe, strongly, that by retargeting the SEOG program we would make one positive step to attempt—to attempt to reverse this trend.

Thank you very much, Mr. Chairman.

[The prepared statement of Arnold L. Mitchem follows:]

PREPARED STATEMENT OF ARNOLD L. MITCHEM, EXECUTIVE DIRECTOR, NATIONAL COUNCIL OF EDUCATIONAL OPPORTUNITY ASSOCIATIONS

Mr. Chairman, Members of the Subcommittee, my name is Arnold Mitchem and I am the Executive Director of the National Council of Educational Opportunity Associations. I am pleased to have this opportunity to present the NCEOA's reasons for recommending that Supplemental Educational Opportunity Grants be targeted upon low-income, first-generation college students as defined by the TRIO subpart. We believe such retargeting would assist in reversing the decline in college participation rates of the most disadvantaged students.

1. Since the mid-seventies the amount of grant aid available to low-income students has declined.

As each member of this Subcommittee is well aware, one of the most significant developments in student assistance since the mid-seventies has been the absolute decline in federal grant assistance. Due in large part to changes in eligibility for Social Security and Veterans' benefits, between 1977-78 and 1983-84, the amount of federal grant aid awarded to postsecondary students declined from $5.9 billion to $4.1 billion according to the College Board.

During this same period, due primarily to the elimination of restrictive language in the Supplemental Educational Opportunity Grant program, more middle income students became eligible for this greatly diminished aid. As a result, the average grant awards of low-income students are substantially less today than they were in 1974:

DISTRIBUTION OF GRANT AWARDS BY INCOME AND SIZE 1974, 1981

[Award size]

Income category	Year	$1 to 999	1,000 to 1,999	2,000 to 2,999	3,000 to 4,999	5,000 plus	Total
0	1981	43.57	40.23	10.40	5.79	0.00	100.0
5,000	1974	21.36	42.77	19.87	12.66	3.33	100.0
6,000	1981	47.94	38.96	8.89	4.21	0.00	100.0
12,499	1974	37.05	37.42	15.25	8.24	2.04	100.0
12,500	1981	59.30	31.30	6.50	2.89	0.00	100.0
19,999	1974	46.12	34.12	12.56	5.74	1.39	100.0

(National Commission on Student Financial Assistance.)

For example, while in 1974, a quarter of students from families with incomes below $12,500 (in constant 1982 dollars) received federal grants of $2,000 or more, today, less than 15 percent of such students receive federal grants of this magnitude. During this same period, according to the Commission, total aid awarded increased most rapidly for students from families with incomes above $20,000, while the aid available to the lowest-income students was seriously eroded.

The removal of the restrictive "exceptionally needy" requirement for SEOG in the 1980 Amendments did in fact result in a shift in funds away from low-income students. In 1979-90, according to the Department of Education, more than half of the total SEOG appropriations was awarded in grants to students with family income below $18,000. By 1982-83, almost two thirds of the SEOG funds available went to students from families with incomes above the $18,000 level.

DISTRIBUTION OF SEOG FUNDS

[In percent]

	Family income—			
	0 to $5,999	$6000 to $11,999	$12,000 to $17,999	$18,000—
1979-80				
Recipients	17	19	16	48
Dollars	16	19	17	48
1982-83				
Recipients	12	13	13	62

DISTRIBUTION OF SEOG FUNDS—Continued

[In percent]

	Family income—			
	0 to $5,999	$6000 to $11,999	$12,000 to $17,999	$18,000—
Dollars	11	13	14	62

2. *College participation rates for low-income and minority students have declined.* Declines in enrollment of minority and low-income students have reached such proportions that they have attracted notice in the media, including the Washington Post and the Wall Street Journal. As the following table illustrates, enrollment of college-eligible 18-24 years old from families with incomes below $10,000 is down 17 percent since 1978; enrollment of Black students is down 11 percent. Enrollment of Hispanic students has also declined, although less dramatically.

FTE PARTICIPATION RATES FOR SUBPOPULATIONS FOR THE COLLEGE-ELIGIBLE AGE 18–24 POPULATION BY FAMILY INCOME AND TOTALS BY TYPE AND CONTROL 1978, 1982

[In percent]

	White			Black			Hispanic			Total		
	1978	1982	Change 1978–82	1978	1982	Change 1978–82	1978	1982	Change 1978–82	1978	1982	Change 1978–82
All schools:												
Family income under $10,000	27.6	25.8	−6.5	32.7	22.7	−30.6	23.5	26.7	+13.6	30.3	25.2	−16.8
$10,000 to $19,999	36.8	32.0	−13.0	32.3	32.7	+0.3	34.2	26.9	−21.1	36.0	32.9	−8.6
$20,000 to $29,000	36.1	36.8	+1.9	34.5	35.7	+3.5	32.3	32.9	+1.9	36.3	37.3	+2.8
$30,000 to Plus	49.8	51.8	+4.0	46.7	44.6	−4.5	47.8	40.6	−15.1	49.9	51.7	+3.8
All dependent	43.2	42.9	−0.7	35.6	31.5	−11.5	31.6	31.2	−1.1	42.4	41.7	−1.7
Independent	10.9	12.5	+14.7	12.4	10.9	−12.1	17.3	11.7	−4.9	11.4	12.8	+12.3
All students	28.1	30.1	+7.1	27.8	24.8	−10.8	21.7	23.9	+10.1	28.4	29.9	+5.3
At 2-year public	5.8	7.2	+24.1	6.6	5.5	−16.7	7.5	9.9	+32.0	6.0	7.2	+20.0
At 4-year public	15.0	15.7	+4.7	15.5	13.6	−12.3	10.1	9.5	−5.9	15.3	15.7	+2.6
At all private	7.3	7.2	−1.4	5.7	5.8	+1.8	4.1	4.5	+9.8	7.1	7.1	

John Lee et al. "Student Aid and Minority Enrollment in Higher Education." American Association of State Colleges and Universities: Washington: 1985.

BEST COPY AVAILABLE

3. The National Council of Educational Opportunity Associations is proposing the eligibility for supplemental educational opportunity grants be restricted to students who are both low-income individuals as defined in the TRIO subpart and first-generation college students, also as defined in the subpart. The TRIO subpart of the Higher Education Act defines that group of students for whom the Congress has expressed particular concern. This concern stems from their relative disadvantage in terms of access to higher education. The group includes young people and adults who meet two criteria: (1) they are from families with incomes below 150% of the poverty level, (2) neither of their parents graduated from college.

The rationale undergriding TRIO eligibility is that these two factors—income and parental educational attainment correlate strongly with likelihood of college completion. Congress recognizes that this group of students needs particuar attention—in terms of counseling, academic support, and student-aid—if they are to be given a realistic opportunity to graduate. Amending SEOG eligibility to target this program on TRIO-eligible students would make clear Congressional intent to provide that opportunity.

As I briefly mentioned, there is a good deal of evidence already available that with increased grant aid TRIO eligible students do chose to attend college in large numbers; and in the absence of such aid their participation declines. Under the current SEOG eligibility criteria, colleges can choose to award SEOG to any student with remaining need. Financial aid officers, particularly those at institutions under pressure of declining enrollments, are sometimes under significant pressure to award such aid to those students for whom smaller amounts of grant aid will make attendance at the institution more likely. Such students are much more likely to be from moderate rather than low-income families.

4. Utilizing the first generation criterion introduces a positive criteria for assistance.

Particularly at higher cost institutions which now receive well over half of the SEOG appropriation, low-income students often feel singled out for what are perceive to be negative characteristics. They are poor, they are often from a racial or ethnic minority, and they may have been disadvantaged by deficient academic preparation. The TRIO first-generation criterion emphasizes one of the strengths such students bring with them to campus—their striving for upward mobility in order to make a better life for themselves and their families, in our view, it is a strength worthy of special note in the aid awards process.

Their is some evidence available as to how a "First-Generation Award" might function. In 1983, the Colorado State Board of Agriculture which serves as the governing body of Colorado State University, the University of Southern Colorado, and Fort Lewis College introduced the "First Generation Award" and allocated an initial sum of $100,000 in order to "promote the diversity of the student population" at these institutions. Based on its success, the Regents doubled the allocation for the program this year.

Frustrated by increasing evidene of the inability of poor and minority students to remain in school, the Regents designed the program based on their knowledge of TRIO. The award program, in the view of TRIO staff at Colorado State and the University of Southern Colorado, has enabled a number of TRIO students to enter or remain in school. Additionally, it has promoted closer working relationships between TRIO staffs and the student aid offices on these campuses.

Such cooperation is critical if TRIO students and other low-income, first-generation students, are to succeed. Most TRIO directors and aid officers can go on at length with stories regarding the obstacles that many disadvantaged students face navigating higher educational bureaucracies—students face in navigating higher educational bureaucracies—students not being able to buy books until the middle of the semester when their loan checks are finally processed; students advised to enroll in courses which are unrealistic in light of their academic preparation, who drop some of those courses and consequently do not make satisfactory academic progress; students working full-time because their aid does not nearly approach their need.

Unless colleges and universities take particular care to meet the academic, personal and financial needs of the most disadvantaged students, many such students—even the most talented—will fail to graduate. Utilizing the same eligibility criteria for TRIO and for SEOG is one further step to encourage cooperation between aid officers and TRIO staffs which is necessary to protect the interests of the most disadvantaged.

The NCEOA is convinced of this Subcommittee's concern with the particular needs of low-income, first-generation students. Restricting eligibility for SEOG to this population will be one further evidence of that concern and commitment and should serve to increase college participation rates among the most disadavantaged.

Mr. FORD. Do you want to introduce your man?

Mr. COLEMAN. Mr. Chairman, I would like to apologize, Ben, for not being here when you provided your testimony. I would like to give you the special welcome to the subcommittee.

Ben Sandler is the director of financial aid at Washington University, in St. Louis. He has been a very valuable contributor to this subcommittee and to myself personally from the standpoint of his wisdom, and knowledge, and expertise in this field. Ben, we thank you for being here today.

Mr. SANDLER. Thank you.

Mr. FORD. My first question, to Mr. Saunders, Mr. O'Neill, and Mr. Sandler. How do you react to Mr. Mitchem's proposal?

Mr. SAUNDERS. Well, Mr. Chairman, I think we're all trying to do the same thing. I think Mr. Mitchem's proposal really challenges the committee to do a better job of targeting the funds.

We are proposing that the cutoff be two hundred percent of poverty, which is about the median family income of a little over $20,000.

Mr. Sandler mentioned that that wasn't—that that provision wasn't necessary.

Although I think if you simply go to the remaining part of our formula, half of need, you make eligible families up into the $30,000, $40,000, or possibly $50,000-income range. And it seems to me that that's a major question this committee has to decide, where to draw the line.

We're saying, for starters, that median family income is a reasonable place to do it. Now, the committee may feel that $30,000 or $35,000 or $45,000 family income students should be eligible for campus-based aid. In which case, you might want to make it 250 or 300 percent of poverty. You may feel that you want to go in the direction of Mr. Mitchem and scale it down to $15,000 to $20,000. But unless something is done to target the programs more effectively, we're just not going to address the problem that we've all agreed on in broad principle that the programs should be targeted more effectively.

Mr. FORD. Mr. O'Neill?

Mr. O'NEILL. Mr. Chairman, we would not be in favor of a cap such as suggested by Mr. Saunders or the other gentleman. We need the flexibility to award aid to needy students. And it may be that some language could be drafted that the most needy be served first, and that allocations be in some sort of priority order. How that would be done, we might be able to give a suggestion to the committee at some later date.

Mr. FORD. Well, I recognize that you have to try to wear two hats here, I see. But the supporting argument for the Pell formula that NAICU has given us puts great emphasis upon the fact that their objective is to target the money to the lower end of the income scale. And that's the principle justification, frankly, that is being used for that change that strikes terror into the hearts of the low-cost public institutions.

You've got a problem with the listed institutions on the last page of your testimony here, as I don't see any low-cost institutions there or even average cost.

Oh, no; I guess that's Mr. Sandler's list.

Mr. O'NEILL. Yes.

Mr. FORD. Pardon me. He's the one I want to get with this, not you.

Mr. O'NEILL. No; mine would tend to be——

Mr. FORD. You have the small ones.

Mr. O'NEILL. The small ones.

Mr. FORD. The low-cost NAICU schools.

Mr. O'NEILL. Yes.

Mr. FORD. Well, how about it? Does NAICU mean it do you think or not? Would they really like to target these programs to the lower end of the income scale?

Now, Mitchem's proposal of 150 percent of the poverty level is higher than—I think is higher than the full grant in Pell is. Can a person at a 150 percent of poverty get a full Pell grant?

Mr. SAUNDERS. Not generally, no.

Mr. FORD. They can get a Pell grant, but not a full Pell grant.

Mr. SAUNDERS. Yeah. Right.

Mr. FORD. So, if you used 150 percent of poverty, you still wouldn't be getting to—it wouldn't be concentrating the money as much as NAICU says it wants to concentrate it in its Pell money.

That would be a good temporary rationing device it seems to me, because it would say that if you are a school that doesn't attract low-income students by a variety of devices or circumstances, that you will give that money up to the school that does, until such time as we get enough money to fund at a higher level.

How would you react to trying to get through the current hiatus on funding by some kind of a sliding scale that started at 150 and moved up to 200 and then off, according to the level of appropriations above current appropriations?

In other words, if we got new money, we would take the cap off by putting the new money in.

Mr. O'NEILL. Mr. Chairman, I think there's an assumption there that the SEOG is not going to needy students. And——

Mr. FORD. What would happen? Think of the problem that was outlined by Congressman Leach and again by Charlie Saunders, with the situation where static appropriations have given us an unfair tilt because we froze everybody in the 1980 amendments with a floor, and there's no money available to take account of the change in the demography of institutions or States.

So, think of some kind of a combination like this and see how you react to it. That in order to correct that you pull out that hold harmless guarantee for so long as—pull it out altogether, and then start off at something like 150 percent of poverty. And, then, that would reallocate for the first year the money amongst institutions to those with proportionally a higher percentage of people under 150 percent or 200 percent, whatever we agreed on. And that if then there is an increase in appropriations, new money would go, to other institutions. How would that strike you?

Mr. O'NEILL. As long as you didn't have a massive shift of funds away from institutions. In other words—

Mr. FORD. I think you would have because one should, I would guess, assume that whenever we put one of these hold harmless provisions in and it rides for very long with no increase in the pro-

gram the effect of it is to continually reward particular schools at a level above what they would earn if you let the formula operate.

We learned that very sadly with the allocation of migrant funds among the States a number of years ago when we converted to using the national computer instead of an estimate, so that we got actual body count, and you got paid for actual days of education provided.

We discovered that many States that were getting money were getting far more money than they were providing education with, and others were not.

Those States that were going to be hurt insisted on a hold harmless. Then we got into this period of holding the appropriations at a constant figure and, indeed, reducing them with the Gramm-Latta budget. And the result was that we have, to this day, some States getting their money on the basis of a hold harmless. That now have machines instead of migrant children and aren't providing education. And other States that do have the children aren't getting enough money. And that will always happen when you put a hold harmless into a formula and let time go by with a static appropriation level or a reduction in appropriation.

Mr. SAUNDERS. But, Mr. Chairman, I don't think that that's the case here. As I have pointed out, it's not a question of some institutions getting more than they need. It's some institutions getting relatively more than others, but none of them are getting more than they need, none of them are approaching what they need.

Mr. FORD. We agree that we have no program authorized by this committee that has appropriated a level that gives any part of it more than it needs.

Mr. SAUNDERS. Yes.

Mr. FORD. It's a question living in the age of David Stockman, which I trust will go on beyond him or after he's gone, that we have to think about how to reallocate and to allocate already underfunded programs.

Mr. SAUNDERS. But I think we would respond to your specific suggestions that it would create too much of a shift among institutions and take a very substantial amount away from needy students in some institutions.

We would rather put the freeze point where the current appropriations are and target new money more effectively.

Mr. SANDLER. To a considerable degree, Mr. Chairman, the inequities among States will be resolved if the State allotment formulas are altered.

Let me try to explain, briefly, what I mean and give you a couple of examples. In the 1985-86 allocations of campus-based programs that have just occurred, in the SEOG program, for example, funds were allocated across the United States to meet 7.5 percent, 7½ percent of all the institutional need that's out there. And remember that institutional need is measured crudely, but consistently, between—among institutions and among States.

Now, let me give you some examples of how SEOG money flowed via the State allotment formulas into various States. 7.5 is the national norm. In Iowa—and I think this is the heart of Congressman Leach's problem—the percentage was 5.6 percent. In Work-Study, 7.6 compared to a national norm of 10.3. In Texas, 11.9 percent of

the SEOG money flowed into—11.9 percent of the institutional need in Texas was met with SEOG funds. Only 5.6 percent in Iowa, 14.8 percent in New Mexico.

Those variations will go away if the State allotment formulas go away and are accompanied by the protection of a conditional guarantee that's 100 percent.

Regarding Mr. Mitchem's suggestion, none of us at this table, I don't believe, have any philosophical, broad philosophical difference concerning the notion that SEOG's should be targeted to needy students. We have grave reservations about arbitraty income cutoffs that aren't directly related to need.

Mr. Mitchem posits, in his testimony, that students aren't needy by SEOG definitions, or shouldn't be, if their incomes are above—family incomes are above $18 thousand.

Mr. Saunders posits the same thing at a $25 thousand income level.

But what about a policeman and a mother who works as a part-time secretary, who together make $30 or $35 thousand, who want to send their kid to the University of Detroit? And they're first generation. And that kid would be a first generation college student. Should he not be eligible for SEOG funds because he wants to go to a slightly higher cost institution?

I think you can solve both problems if you pursue something like, perhaps, Mr. O'Neill's suggestion. Establish a general eligibility constraint of family contributions less than one half the cost of attendance, and then require institutions to distribute their money in the order of the neediest first, so that you will be sure that the neediest kid at that institution will definitely get SEOG support, and then the next neediest, and then the next neediest.

Mr. FORD. Mr. Coleman?

Mr. COLEMAN. Very briefly, would you gentleman address the issue of how we might be able to help decrease the default rate on NDSL loans. The default rate is higher than it should be. Of our student loan programs it's one of the highest, if not the highest.

How should we address this problem?

Mr. SAUNDERS. Mr. Coleman——

Mr. COLEMAN. To help you, the institutions——

Mr. SAUNDERS. My formal testimony includes some discussion of the study we have recently had done by Art Hauptman, which suggests some possible ways of approaching that problem; requiring colleges to use loan servicing agencies is one of the steps he proposes to make the direct loan program less—substantially less expensive compared to the Guaranteed Loan Program.

As he points out in his study, the two programs now cost approximately the same amount of money per dollar loaned. They both cost the Federal Government about 50 cents. And his study makes a number of suggestions for reducing the cost of the Direct Loan Program per dollar loaned by about 35 percent. And one of the principle suggestions there is requiring the use of loan servicing agencies.

Mr. SANDLER. We think that National Direct Student Loan defaults can be reduced to a very low level if students feel they're getting the kind of education they bargained for, if they're able to complete their programs, and if the institution is required to

assume the responsibility of letting that student know that it's a loan right from the word go. You begin to collect the loan the day you make it. And institutions that don't follow that adage are going to be in trouble.

Mr. MITCHEM. Mr. Coleman, I don't feel competent to offer any kind of technical approaches to the problem that you pose. However, I would suggest to you or my impression is that part of the NDSL default problem may result from the fact that you have a number of low income borrowers in that category. And the only thing I can say about that is, that's the fallout from the imbalance that has occurred in recent years between loans and gift aid. And I don't know what you can do about it, other than put more money into these gift aid programs for low income kids. Because I think, if you look at the characteristics of those families, I think you'll find there's a lot of defaults, and judgements, and bankruptcies in other ways. And, so, I don't think you can avoid it once you get involved with that population.

Mr. FORD. Well, when Secretary Bell put the cutoff on new capital contributions if your default rate was 25 percent or more the first list of those schools that wouldn't get additional funding because they exceeded that were not what I expected. I expected to see the big city colleges on there, and I didn't. What you saw on the list were the small schools that were more likely to be a member of Mr. O'Neill's organization. And that led some of us to believe that the small schools did not have business offices and strength in their administration because of their size that made it possible for them to handle their loans in a businesslike way. And I think that's what gave rise to the idea of putting some kind of a requirement on them that they have someone else service their loans.

There are plenty of people around in that business now, and they can generally do it much cheaper than a small school can do it for itself.

The default rate now is down around where?

Mr. O'NEILL. Eleven percent.

Mr. FORD. Eleven percent. That's as good as it's ever been. And that's still more than double the Guaranteed Student Loan.

I think Mr. Mitchem put his finger on something. We know by looking at the profile of the defaulter on the Guaranteed Student Loan that being from a low-income background is an indicator of a possibility or a probability that you will end up in that default category. And that's one of the common factors you find among the defaulters. So that if you have a program like NSDL that has been, from the beginning, targeted to a different population in economic terms, it's likely that you're going to produce a greater number of people at risk.

And that leaves us with the question of whether 11 percent is really all that unacceptable given the population that you're working with. But the 11 percent is what keeps popping up here to make it difficult to get appropriations for additional capitalization. And we've fought it, you recall, Charlie, with the Carter administration constantly. They wanted to zero it out in the 1980 amendments.

Mr. SAUNDERS. Yeah.

Mr. FORD. No more. Let the schools now live on their revolving fund, as if everybody had one built up. And if they'll go out and collect what they have owing, they can make other loans and it will work by itself.

Mr. Carter's David Stockman—I think his name was MacIntyre—had that great idea, which was rejected by the Congress at that time.

But that's typical of what we've been going through for years with that program. And it's always the default rate that is cited as the reason why the schools have got to be forced to do something better than they're doing.

When we started the Guaranteed Student Loan Program, there was great concern that the moneylenders out there, the moneychangers in the temple, would not be as responsible in handling loan programs as college and university people. And what we've discovered over the years is that, indeed, from a moneylender's point of view, they are far more responsible and they do a better job.

But we can track the drop in the default rate not to changes in policy but, really, to the availability of loan servicing and loan services of one kind or another by guarantee agencies and State agencies that wasn't in place 7, 8 years ago. And as their sophistication grows and they're able to become more and more efficient, we expect that that default rate will be reduced to the irreducible minimum.

How would you react to a flat requirement that ties a default in the school to them being forced, at that point, into the arms of a servicing agency?

Now, they'd then have to make a choice. We'd either put some people to work on this campus to service these loans and get our default rate down, or we're going to have to turn them over to somebody else. And they will then have to tell their students, we're going to turn you over to the tender mercy of strangers to collect this loan after you go. You can't come back and plead with us that your father went to school here, and your uncle went to school here, and your family has always been connected with the school, and you shouldn't be tough on me.

That's one of the things that happens in small schools.

Mr. O'NEILL. Mr. Chairman, small colleges make very bad banks. And it's—what the problem is, that if you're giving out small loans to people whose creditworthiness you're not checking, you're going to have a default rate that is high.

I think that the tradeoff is, is the cost of collecting the loans such that you negate the giving of the loan?

In Mr. Saunders' testimony, he talked about the possibility of giving small loans. Well, banks don't like to give small loans. And, probably, small colleges shouldn't give small loans because they don't recognize the full cost of collection, whereas a bank would.

And, some way or another, we would have to say what is the cost benefit between giving a loan to someone who may not be creditworthy, but who needs an education, and then the cost of collecting that loan.

Mr. FORD. Well, I think Mr. Coleman is expressing a concern that's up and down the committee because of what we get from

others in the Congress. And unless our reauthorization indicates that we've paid some attention to that default rate in some fashion, our credibility with that program is going to be damaged.

And I would ask you gentlemen, particularly the first three at the table, to ask your organizations to take another look at this and give us some suggestions about what might be done to reinforce the belief in Congress that something is going to change.

Mr. SAUNDERS. Mr. Chairman, I would be glad to do that. I'd just add that I think this problem, as it has got increasing attention over the years from the institutions and from the administration, the default rate has shown progress and has dropped down from 16 or 17 percent or higher at one time. Now, I'm informed that the later figures are that it's below 10 or 11 percent and somewhere between 8 and 9.

So, there is progress being made on the problem. But we'd be glad to take a look at it.

I think some kind of a requirement of collection agency, use of collection agencies, if an institution's default rate is over a certain percentage, is a reasonable requirement. And that's one of the things suggested in the Hauptman study, as I say, which has been made available to this committee.

Mr. FORD. Mr. Hayes?

Mr. HAYES. Thank you, Mr. Chairman.

Mr. Saunders, you said, I think I recall you correctly, that a lot of institutions receive much higher percentage of funds than they are entitled to.

I don't know if I understand the reason for that. Are you suggesting that we have a congressional responsibility to correct this if it's true?

Mr. SAUNDERS. Yes. And we're proposing specific steps to make allotments among institutions more equitable. But we're not proposing massive shifts within institutions, because all of the institutions have greater need than they are actually getting in Federal funds. As I say, the need, based on the current formula, the need for supplemental grants is something in excess of $4 billion over the current appropriation.

Now, if you started correcting within the current funding, you would have to reallot about a third of the current appropriation. And that would mean some institutions would suddenly have far less money to meet the needs of their students.

So, we're proposing that those corrections be made with additional funding and holding all institutions harmless at their current levels.

Mr. HAYES. Whose responsibility is it to determine eligibility in the allocation of SEOG funds?

Mr. SAUNDERS. The institution's.

Mr. HAYES. Institution. Is it possible to direct those funds into other areas other than that which it's intended, for the university to do it?

Mr. SAUNDERS. No. They have got to use it for campus-based programs. They have some flexibility to transfer between——

Mr. HAYES. I mean specifically in the area of those disadvantaged students that that amount of funds is supposed to go to. Can it be used for something other than that?

Mr. SAUNDERS. No, sir. They can only be used for student assistance.

Mr. HAYES. Uh-huh. Uh-huh. For disadvantaged students?

Mr. SAUNDERS. For students who don't have the financial resources to attend the institution otherwise.

Mr. HAYES. Yes. Uh-huh.

Mr. SAUNDERS. This——

Mr. GAYDOS. Would the gentleman yield?

Mr. HAYES. I'll be glad to.

Mr. GAYDOS. I think you're asking a question that I was going to ask. Because I think colleges did shift it more toward a middle income student rather than what the original intention was, which was the low income student. And I guess they had that legal right the way it was written.

Mr. SAUNDERS. Yes. Yeah.

Mr. HAYES. Uh-huh.

My other question is directed toward Mr. Mitchem. Explain to me. Since I have some real interest as a result of the composition of my district as to—here you've got a student who wants to go to an institution of higher learner, whose parents are unemployed, they're on public assistance, maybe public aid and food stamps, yet they want to give their kid the advantage of a college education. The kid is really the kind of kid who would do well if he had the opportunity. Is the formula of $18 thousand or less to be applicable in the situation? How do they? What are the entrance approach that this family should take in order to be—are they eligible for any kind of funds at all?

Are we still governed by the same kind of principle that permeates in our society as it relates to certain neighborhoods, for example, on auto insurance? You pay a higher rate in the so-called area where the crime is the highest because of the economic level of the people who live in that area.

On the other hand, the grocery store that operates multiple units, they dump stuff in the black and poor neighborhoods that they wouldn't dare leave in the suburbs.

What I'm saying is, is it impossible for that student to get a loan because it's considered in advance that he'd be a higher risk and have no way to repay that loan, so he'd have no chance?

Would you explain this situation to me?

Mr. MITCHEM. No, it's not impossible. I think Congress has made a lot of corrections to assure that all individuals are equally eligible for the—at least the Guaranteed Student Loan Programs.

However, in terms of the campus-based programs, and specifically the Supplemental Educational Opportunity Grant Program, initially, when the program was authorized in 1965, it was targeted on low-income individuals. I believe the language read individuals with exceptional need.

At the same time, they created the Talent Search Program, which was a program designed to go out and to advertise, and market, and make these funds known to low-income communities. A good example, in Chicago, is the McKinley House, which does a very outstanding job of making that information available to persons living on the south side of Chicago.

Over time, the definition for SEOG in terms of eligibility has changed. What is occuring now, from what I can determine, with SEOG, and Mr. Saunders and others can correct me if I'm wrong, is that there has been a dilution in terms of the funds in terms of low-income people having the opportunity to get them, in that there are more people involved in that program now, are eligible to participate in that program now, than was the case——

Mr. HAYES. That's the reason for the decline in the——

Mr. MITCHEM. That's a part of the reason why it's more difficult for low-income individuals to receive SEOG funds and particularly for low-income individuals funds in larger amounts. And, also, not just in terms of SEOG, but as we like at Pell, as well, we find there's been a real decline in the purchasing power of these programs, which just makes it more difficult for low income, minority kids to go to college now than it was in the seventies.

So, essentially, what we're trying to say here in my testimony is we're asking the Congress to consider to retarget to SEOG funds to bring it closer to the original intent of the program back in 1965. And by using the 150 percent cutoff, we're saying we're hoping we can drive the money further down. As opposed to making the money available to people above $15,000, we're saying let's try to get the money available to people below $15 thousand.

Mr. HAYES. Thank you, Mr. Chairman. I've already abused my time privileges.

Mr. FORD. Thank you.

Mr. Goodling?

Mr. GOODLING. Mr. Chairman, I'd ask the first question of you, since you've been involved in this higher education a bit more closely than I for quite some time.

Is there anything in the law, at the present time, which would not allow the Pennsylvania Higher Education Assistance Agency for instance, for a percentage, to collect direct student loans that are outstanding?

Mr. FORD. No. As a matter of fact, many institutions do. But some are reluctant because they feel that it's a personal relationship with their students and so on. And there has been talk, over a period of time, of forcing them, if they're not performing well, as shown by their own institutional default rate, into the hands of programs like that.

Mr. GOODLING. But they could, at the present time, have someone collect?

Mr. FORD. Yes.

Mr. GOODLING. Is there percentage set up or——

Mr. FORD. I don't know. No; I don't know how many of them do it.

But the people who are in that business contend that they can do it for small banks and small schools better than the small bank and the small school can do it because they have the scale that lets their unit cost come down.

Mr. GOODLING. Do any of you have any figures on that, schools that are using a collection agency, for instance?

Mr. SANDLER. I imagine that one disincentive to a school using a collection agency, if it imagines that it can do a decent job, is that

the collection agency gets to keep a fairly high proportion of what it collects. That's it. That's the agency's——

Mr. FORD. No. He's not talking about a collection agency. He's talking about a loan servicing agency——

Mr. SANDLER. That's like a billing agency. OK.

Mr. Ford [continuing]. That does predefault work and all the other things.

Mr. GOODLING. Like PHEEA in Pennsylvania.

Mr. SANDLER. I understand.

Mr. GOODLING. I had one question before I had to leave for a few minutes. Mr. Saunders, I had underlined on page 2 "but none of the target funds directly on needy students."

Mr. SAUNDERS. Uh-huh.

Mr. GOODLING. "In fact, it's virtually impossible for any formula to target funds on the neediest students using aggregate State data rather than the amount of aid needed by applicants in each institution."

And, then, on page 4, you say, "we recommend the State allotment formulas be eliminated and that new funds be distributed in all three programs based on each institution's national relative need."

Perhaps, in your testimony, you indicated how you might do something like that. It just sounds to me like it would be something that would change every semester I suppose.

Mr. SAUNDERS. Well, it would change.

Mr. GOODLING. Well, even with dropouts, it could change every month.

Mr. SAUNDERS. It would change from year to year as the institutions report. But the effect—and it would simply be applying the current institutional need formula. But if you go to that formula, then you are—from year to year you are putting the money where the neediest students are, rather than by—on the basis of arbitrary State formula.

Mr. GOODLING. Well, I agree with what it is you are trying to do. My concern is, how you do it.

Mr. SAUNDERS. Well, the mechanism is—the formula for institutional need is there in the law already. And we're simply—we would go to that exclusively and eliminate the State allotment formula.

Mr. GOODLING. Allotment altogether.

Mr. SAUNDERS. Yeah.

Mr. GOODLING. OK.

I have no other questions, Mr. Chairman.

Mr. FORD. As I understood it, both Mr. Sandler and Mr. Saunders recommended that we just eliminate the reference to the State allocation.

Mr. SAUNDERS. Yes.

Mr. FORD. And I think that one or both of you said that, if not directly, implied, that since 1980, when the hold harmless was put in, that the State allocation became an irrelevancy anyhow.

Mr. SAUNDERS. But——

Mr. FORD. It really doesn't mean anything at the present time.

Mr. SAUNDERS. Well, it wouldn't if we moved the base year forward to 1985-86 and start from there, so we're guaranteeing every

institution what they're getting through the campus-based programs now, and starting from there.

So, there'd be no need, no longer any need for any kind of a State formula.

Mr. FORD. The State allocation, Mr. Goodling, has some strange characteristics in it, such as, counting the number of high school students in the State.

Mr. SAUNDERS. Yeah.

Mr. FORD. My recollection is that a Member from New Jersey wanted that because, at the time we were working on this, New Jersey exported most of its college students, that the overwhelming majority, at that time—I don't know if it's still true—of New Jersey citizens who went to school went outside of the State to go to college.

Mr. GOODLING. When I was a student at the University of Maryland, most of the State of New Jersey was also there.

Mr. FORD. I think that that was in keeping with what we were doing in those days to try to protect States.

Mr. GOODLING. Yes.

Mr. FORD. But the State doesn't perform any function. The State allocation doesn't really mean anything, and it doesn't really generate any figures that are relevant to who's in school and where.

Mr. SAUNDERS. I suspect, Mr. Chairman, that in 1957 and 1958, when these formulas originated, there was—it was simply a question of there was no kind of a national data base on individual student need, and the best proxy they could think of was to go by enrollments. And, so, that's what—all three of the formulas are, basically, driven by enrollments in the States.

The only thing is, as our data gets more sophisticated, it becomes apparent that the need doesn't flow equally among the States.

Mr. HAYES. Would the chairman yield just for a question of you?

Mr. FORD. Yes.

Mr. HAYES. Do you feel that the political leverage of a State would have any influence on the allocation of funds for this?

Mr. FORD. No. Because the States do not get involved. The State allocation means that no more than this amount of money will go into the institutions within that State. But the State doesn't apply for money. The money doesn't get delivered to the State. The Governor doesn't know how much is coming into his State. The State Department of Education doesn't. They don't really have anything to do with it.

Mr. HAYES. I just——

Mr. FORD. When we talk about a State allocation here, it's not money allocated to a State agency. It's allocated as a limitation upon how much can be allocated to institutions within that State.

Mr. HAYES. OK.

Mr. FORD. Mr. McKernan?

Mr. MCKERNAN. Thank you, Mr. Chairman.

Mr. O'Neill and Mr. Sandler, you're probably more aware of the debate on NDSL's versus GSL's than I am. Has anyone done any research on the percentage of students at the schools that you represent that have both GSL's and NDSL's?

Mr. SANDLER. I can't speak for all the institutions that are members of the Consortium on Financing Higher Education. But I sus-

pect that their situations are similar to the situations of the students at Washington University.

I can't cite you a specific figure. But I can tell you that a very high proportion of our needy students, well over 50 percent, are borrowing both national direct student loans and guaranteed student loans, almost always at the maximum legally allowable under the law.

The implication of that fact is, in one sense, not so terrible as you might imagine, but, in another sense, quite damaging.

Students who are borrowing at that level, at least, so far, at our institutions, seem to be able to handle the repayments. We're reaching a point where loan consolidation, with its extended repayment provisions, will become extremely important to high borrowers. But that situation may be, on its face, manageable, at least in the short run.

What it's doing to those attitudes about their educational experience, what it does to their attitudes about vocational choice, is something that's more difficult to get at. It's more subtle. But it's something that's very worrisome to us.

Mr. MCKERNAN. Mr. O'Neill, do you have any——

Mr. O'NEILL. I was just looking through my notes. And I know that we have submitted it to the committee, but I don't have it here.

Mr. MCKERNAN. You've submitted to us the percentage that also have GSL's?

Mr. O'NEILL. Yes.

Mr. MCKERNAN. OK.

Mr. O'NEILL. The data on GSL and DSL.

Mr. MCKERNAN. I'm sure that we can locate that.

I didn't see in any of the testimony, and I confess to only having skimmed it—comparisons between the administrative costs of implementing the NDSL and the GSL programs. Does anyone have such information?

Mr. SAUNDERS. Well, Mr. McKernan, our study that I referred to, the Hauptman study, which has been made available to the committee, talks in terms of the cost to the Federal Government, and demonstrates that the—it costs the Government, per dollar loaned, less to make a direct loan, slightly less. They're about—they're both roughly 50 cents on the dollar.

But that if changes were made, specific changes made in the Direct Loan Program, that the cost of direct loans could be reduced substantially more, up to 35 percent more, relative to the Guaranteed Loan Program.

Mr. MCKERNAN. I saw that in your testimony. And I look forward to reading that study.

Do you want to take the lead on trying to remove the provision that deals with military service and teachers for us?

I'm wondering whether or not, if all the loan programs were in one place, the administrative costs would be reduced. And, second, whether anyone would truly be disadvantaged. I don't really have a good enough handle yet on how schools put together their financial aid packages to know whether it is that important that the NDSL Program be implemented at the school, or whether you can

make a valid distinction between grants at the school and loans consolidated somewhere else.

I'm sure you've answered this question a thousand times over the years. But does anybody want to try to convince me why there ought to continue to be campus-based lending?

Mr. SANDLER. As someone who lives in the trenches and makes these kinds of decisions for individual students every day, I can tell you that my own view has changed on the issue.

We advocated, not too long ago, a merging of the programs and a strengthening of the Guaranteed Student Loan Program. It sounds, at least on its surface, like an attractive and, in simplifying, move in the direction of the efficiency.

We've been won over, Mr. Congressman, by the experiences of our financial aid officers, who find the national direct student loan an invaluable resource at the point at which the final package is being orchestrated for disadvantaged students for whom a guaranteed student loan may not make a lot of sense, for students who shouldn't be borrowing as much as banks will be only too happy to lend them because of the profits they make, for reasons like that.

Mr. MCKERNAN. Let me just interrupt you, will you?

Mr. SANDLER. Sure.

Mr. MCKERNAN. I don't understand that last comment. Why is it so much more beneficial for somebody to go the NDSL route than the GSL route?

Mr. SANDLER. Banks have an incentive to lend up to the legal maximum in the Guaranteed Student Loan Program if the student is eligible, because they do, after all, earn a reasonable, they would argue, reasonable return on their investment, and the more they invest the more they earn.

On a 5-percent loan, colleges don't have that incentive, and even if the interest rate were higher, I don't believe would have that incentive. Our incentive is what's best for the student in terms of the size of the loan, the interest rate, and responding to thousands of immediate situations that arise that day, that have to be dealt with that day, not 8 or 10 weeks from now.

For all those reasons, we think the National Direct Student Loan Program is an extremely valuable resource at the campus level if it's used judiciously. And I think, in the vast majority of cases, it is.

Mr. MCKERNAN. How many times do those situations involving NDSL's arise that need to be dealt with in 1 or 2 days?

Mr. SANDLER. Much more often than you might imagine. I'd estimate, on my campus, where we see about 30 percent of our students either on a correspondence basis or on a 1-to-1 basis over the course of the year, I'd estimate that of the 30 percent we see maybe 15 or 20 percent become appropriate candidates for national direct student loan as the best of the available resources for them.

I don't know what that works out to as a final percentage of students, but it's not insignificant.

Mr. MCKERNAN. Well, I understand that. I'm sure it's a useful tool.

My question is whether or not there is a better way to implement the loan aspect of this packaging, and whether or not there ought to be some changes made in the GSL Program to make sure that students aren't borrowing more than they absolutely need and

they aren't being told they can borrow up to the maximum level just because the bank gets more interest on it.

Mr. SANDLER. Yes. See, the only final point I could offer to contribute to that notion is not a specific idea, but an underscoring of the concept that those funds are most useful to us when they are immediate, immediately available to us to respond to individual student situations.

How that might be worked out in a GSL framework I don't know.

Mr. MCKERNAN. You gave me the percentage of people for whom NDSL makes a big difference. You didn't really answer what percentage of those people need it on a 2-day or a 3-day notice. How much is the program really used on a short-term basis? Should there be a restructuring if that, in fact, is what the program is for, for smaller dollars for those kind of programs, instead of for the actual packaging of the total cost of the institution?

Mr. SANDLER. I think that NDSL's have a much broader function than simply emergency loans on a 1- or 2-day notice.

Mr. MCKERNAN. OK. But if that's the case, then that distinguishes the NDSL Program, in general, from your situation of meeting a 2- or 3-day amount of borrowing for a particular student.

Mr. SANDLER. Yes.

Mr. MCKERNAN. Anybody else want a shot at it?

Mr. SAUNDERS. Well, Mr. McKernan, I'd just say two things. One, we have in our recommendations on the Guaranteed Loan Program—we did recommend going to remaining need, so to provide incentives for not borrowing any more than a student absolutely needed to.

Mr. MCKERNAN. Is that GSL, you say?

Mr. SAUNDERS. Yes.

Mr. MCKERNAN. OK.

Mr. SAUNDERS. Second, I'd just point out that the NDSL still is very much a small loan program. The average loan per student in the program is somewhere around—I think it's under $900. Whereas, the average loan for Guaranteed Loans is pretty much—it's up close to the maximum of $2,500.

So, I mean that fact alone seems to me to suggest what Mr. Sandler was talking about the usefulness of this device on the campus—you——

Mr. MCKERNAN. Well,——

Mr. SAUNDERS. You talk—you try to package a student's aid and he gets a grant and self-help, and then he has a $700 or $800 gap, and you can fill that gap with a direct loan. Whereas, if you send him down the street to the bank to borrow a GSL, the bank wants to lend him $2,500.

Mr. MCKERNAN. That's something we ought to be looking at on this committee, because if that's the case, then we have other people who could use that extra $1,200 that that student didn't need.

But the question that I'm trying to get at, is whether or not this is just a nice way to end out the package, and it's easier for you to do it on the campus than to send them down the street to get a GSL, or whether or not it really is solving an emergency need.

My feeling is probably that it is not. It's just that if it's $800 or $900 it's easier to do it yourself than to send him down the street. The question is whether that's the most efficient way to do it, or whether we'd be better off to have one program. And I don't know the answer to that.

Mr. O'NEILL. There's also a certain recruiting factor involved, that you can tell the student, at that point, how much financial aid they're going to get. And I think for small colleges who are looking for students that that's a significant factor in their recruiting program.

Mr. SAUNDERS. But I think we're understating the importance of the program by simply calling it a convenience factor. I mean it's a great deal more than convenience when the institution is able to patch in that difference and assure the student that he'll get a loan, whether it's $600 or $800.

If they say go down to the bank, the bank may turn them down. The bank is under no obligation to make a loan. And it's just a very important device for the student financial aid officer to have on the campus.

Mr. FORD. Will the gentleman yield?

Mr. MCKERNAN. Certainly.

Mr. FORD. Mr. Saunders is laboring hard to be diplomatic because he's representing an association here. But I don't have to be diplomatic. The fact of the matter is that the banker is going to turn his back on this student if he goes in and asks for $300, $400, $500 loan. He doesn't want to bother with that because he doesn't feel that the yield on that loan will justify the time spent on handling it. And the representatives of the banks and lending institutions will tell you that they are not interested in taking over those loans that are now being handled, to a large extent, by the direct student loan because they don't like little loans. They would like to make $5,000 loans instead of $500 loans. And, indeed, some banks just won't consider anything below a $1,000.

And we've had testimony from a number of people that indicates that there is a practical minimum at the banks of a $1,000. So, if the kid only has a $600 remaining need, they still say borrow a $1,000.

We can't tell them not to do it. They'll say take your program and get somebody else. The banks are in this only on a voluntary basis. And they sort of have our students at their mercy. If we do something to force them to accept a condition as a part of making a student loan that they find is not economically acceptable to them, they'll just opt out of the program.

So, then, the loan availability becomes a real serious problem. Particularly at smaller banks. And remember, also, that you're talking, for the most part, because of the income group that you're talking about, of people who do not have either themselves or through their family any preexisting relationships with the local banks.

Once you get up a little bit further on the income scale, somebody has got a checking account, or a small savings account, or an auto loan, and somebody in the family knows where it is and how to get in there. But most of these people in this category don't have that connection. And it was probably much truer. We tend to think

that because it can now be said that we have such wide access to guaranteed student loans across the country compared to a few years ago that we might get a little overly optimistic about how deep that access really is.

The same factors that kept the banks from coming in to this business in larger numbers and had it very spotty around the country—there were parts of the country where the program just wasn't doing very much because nobody was doing any lending. They didn't run and jump on this program for many years. It was very slow developing. And it wouldn't take very much for them to get out, particularly right now when credit cards and other things are presenting such an attractive place for them to put their money.

So, while he's trying to diplomatically say it, I think what he would have said if he had been sitting up here instead of down here is, it won't work because the bankers won't do it. That action will give you an opposite reaction that will leave you worse than you were before you started.

Mr. McKernan. Well, Mr. Chairman, let me just ask one final question.

I'd like to get the panelists' comments on how they would feel about a program in which the GSL limit would be increased by whatever the student would be eligible for under the NDSL Program, and that anyone who was already getting a GSL would get the rest of their need as well from the GSL in lieu of going and getting a loan from their institution through the NDSL Program, and, thereby, limit the NDSL Program to those instances where a bank probably isn't going to want to loan them the $800 or $900.

Mr. Sandler. Well, as Mr. Saunders' comments have pointed out, the Federal Government isn't going to save any money that way. It's about as expensive for the Government to make a GSL as it is an NDSL.

Mr. McKernan. If I could just interrupt you for a minute. That may be true, but I am sure that there are savings in doing one loan for $3,300 compared to two loans—one for 24 or 25 and one for 9. There would be some savings just because you wouldn't have to reoriginate the loan.

Mr. Sandler. Yes. Yeah. That's true.

Well, your suggestion for my institution would be a better alternative than doing away with NDSL's and leaving GSL's where they are. And I suspect that's true for most other schools as well.

I still feel that the balance that exists between the two types of programs now is a better situation than merging them as you suggest, but it would be better than nothing.

Mr. Ford. Also, it should be noted that the entire yield to the lender, in this instance the institution, is the 5-percent interest on the loan.

Mr. Sandler. Yeah.

Mr. Ford. Whereas, with the guaranteed student loan it's the 8 percent paid by the student, plus a subsidy figured by T-Bill, plus 3½. That used to be capped at 12, but now can go, as it did 4 or 5 years ago, up to 19 or 20 percent because of the level of T-Bills. And the bank floats up. The institution doesn't float with the cost of money. Their entire return—we don't pay the lender any kind of

a subsidy on the direct student loan. And we pay the lender an interest subsidy on the guaranteed student loan. We insulate them against the forces of the marketplace.

Mr. SAUNDERS. These are all very important factors, Mr. Chairman. And I think Mr. Sandler mentioned that COFHE, in a sense, in effect, changed their views about the Direct Loan Program as they worked through their proposals.

I would have to say that that was mirrored in all the institution-based associations I dealt with, as we tried or began the process of trying to reach consensus. I think there was considerable feeling that we'd better look around for other alternatives for the Direct Loan Program. But as we talked about it and looked at the problem, and particularly as we studied the implications of the Hauptman study, I think we came to the conclusion that the NDSL Program was too important to abandon at this point, that it is a very important supplement, and that you can make some adjustments in it which will make it even more useful and could make it substantially less expensive on a dollar-per-dollar basis than GSL's.

Mr. FORD. Mr. Henry.

Mr. HENRY. No questions, Mr. Chairman. Thank you.

Mr. FORD. Mr. O'Neill, you—and I take it to heart—made a suggestion that the Direct Student Loan Program ought to be called the Carl Perkins Program.

I don't know if you were around in 1980 when we were having the conferences with the Senate. The Senate came at me with a 7 percent interest rate for direct student loans. Mr. Perkins would not let me consider one-half of 1 percent increase over the then 3 percent rate.

When we were trying to settle a whole lot of things at the very end of the conference, I finally agreed to go to 4 percent. This was the first conference, the one that was turned down by the Senate. Mr. Perkins gave me his proxy. He said, I'm going to leave the room because I will not stay here and watch you sell out the poor kids in this country by going up to 4 percent. And don't use my proxy unless you have to have it to get your conference completed.

There was no rollcall vote, so he was not forced to suffer the humility of having even his proxy acceed to increasing a rate that was set in 1958 at 3 percent up to 4 percent.

And then, later, it got even more serious, because the Senate insisted we had to come to 5 percent. And that's how we got to the present 5 percent.

But Carl believed, I think, more strongly in that, the value of that program for low income people in eastern Kentucky than he did in any of the other higher education programs. And he defended it like a tiger with her cubs. And it would be very appropriate if the Congress would remember that.

I wanted to call Mr. Sandler's attention and Mr. O'Neill's attention, in case you didn't see it, to an article that was in The New York Times on July 11, describing the July 10 budget negotiations between the President and the members of the Budget Committee. It reached a point where it says they got into a discussion about maybe we'd have to increase taxes. They quote the President as saying, damn it, I can't listen to all this, and, at one point, became somewhat exercised, gave them a lecture about needless farm

ponds that the Government was passing around. They even tried to give him money for one on his farm and he didn't want it.

And then at the very end it says, according to Mr. Downey, the President cited education as one area of nonessential spending to be added to the list of nonessential things that ought to be reduced. Quote. "Should we let them go to Princeton, or Yale, or Harvard? That's what community colleges are for. The Government has no responsibility to fund luxury education."

I hope that that remark will not go unremarked upon by the people from the institutions that you're speaking for today, because that's at the heart of the philosophical fight that has been developing with the Secretary's statements and the President's statements since we started this reauthorization process. And if, indeed, that reflects very deep thinking with the people who will be speaking for the administration, we're in for a lot of trouble.

We'll be glad to give you copies of that. I hope that somebody will send some letters to the Secretary and to the White House to indicate to them that they hoped that didn't reflect administration policy.

Thank you very much, gentlemen, for your preparation for today and your help to the committee.

Mr. FORD. And the next panel. Mr. John Casteen, National Governors Association. Mr. Kenneth Shook, State Scholarship Board of Maryland. Mr. William C. Carson, President, American Technical Institutes, and Mr. Burke Tracy, executive director of the Coalition of Higher Education Assistance Organizations.

STATEMENT OF JOHN CASTEEN, NATIONAL GOVERNORS ASSOCIATION

Mr. CASTEEN. Thank you, Mr. Chairman.

Mr. Chairman, I am John Casteen, the Secretary of Education in the Commonwealth of Virginia. I'm here today representing my Governor, Charles S. Robb, who chairs the Education Subcommittee of the Human Resources Committee of the National Governors Association.

Let me say, in beginning, that in behalf of the NGA I commend the subcommittee and especially you, Mr. Chairman, for establishing and affirming the Federal role in supporting postsecondary education, especially in the area of aid to students who have need.

I'd like to summarize Governor Robb's testimony. And I understand that the formal statement itself will be included in the record.

The testimony addresses two general matters. One is the question of the division of responsibilities between the Federal and State governments with regard to support for student aid. And the other is the specific issue of the State Student Incentive Grant Programs, which are proposed to be abolished in the administration's budget proposals.

The National Governors Association, by virtue of a number of policy statements that were adopted over the course of several years and as recently as the winter of 1985, considers the postsecondary education system to be a vital part of the Nation's economic

growth as well as an essential part of the quality of our national life.

In addition to being concerned about quality and diversity in our institutions of higher education, the Governors are deeply concerned that all students be able to participate in that quality and diversity.

Maintaining the complex postsecondary systems in this Nation requires a delicate partnership among the Federal Government and the States, the institutions themselves, and the private sector. We believe that partnership has matured over the course of the years since the Federal Government first began to assert its own role in supporting students who attend colleges. And we believe that in the present era the Federal Government has an essential part to play in this partnership.

The States have supplied over two-thirds of the governmental aid that has moved to postsecondary institutions in the past. At the same time, that two-thirds is in the present and will be in the future insufficient by itself to support the entire system.

Therefore, NGA reasons the Federal Government has played an essential role in providing financial assistance directly to students and should continue to do so.

At the same time, by virtue of what amounts to a freeze since 1980, Federal support for postsecondary education has eroded. And the NGA and the individual Governors are much concerned that the recent budget proposals put forward by the administration mark an even more serious standdown in Federal support for students attending postsecondary education.

In effect, NGA believes that these proposals amount to a reduced emphasis on the traditional role of the Federal Government in ensuring access itself. And NGA urges this subcommittee to reaffirm that Federal role in ensuring access.

The NGA argues that Congress should also keep the mixture of grants and loans unbiased so that the range of choices for a student is not limited because of family income.

I mentioned that in December 1985 the Governors adopted a policy statement that addresses the basic questions involved in the Higher Education Act. A summary of that statement appears as page 4 in my prepared remarks. It includes urging the Federal Government to maintain Federal support for student financial assistance programs, to examine ways to reduce students' increasing burden of debt, to address the question of balance between grant and loan programs in overall packaging, to maintain the Pell Grant Program as the foundation of student need based financial assistance, and to maintain the State Student Incentive Grant Program [SSIG], which has given States incentives to use Federal funds to match other forms of need based student aid programs and provided States with flexibility to use these funds to match State work-study programs.

With regard to the SSIG Program, NGA offers the following advice. First, SSIG, which matches State expenditures for grants to undergraduate students, responds to a critical function of the Federal Government, which is to ensure access.

All of the States and territories have initiated need based assistance programs, which have grown with this Federal commitment.

In 1974, the States used $400 million for SSIG related assistance. In 1985, that amount had grown to $1.4 billion.

In fiscal year 1983, nearly 200,000 students received SSIG grants, and almost 54 percent of them were from families whose income was below $10,000.

The administration's proposal would eliminate the SSIG Program on the reasoning that it had accomplished its mission. And the reasoning is supported by the observation that the total State share exceeds the amount necessary to match the Federal share.

Let's acknowledge that SSIG is sometimes overmatched, but assert that the reason is that States often recognize the importance of access to be available to poor students. It may be useful to note that two-thirds of the SSIG overmatch is in five States, and that 36 percent of the total overmatch is from the State of New York alone.

The General Accounting Office has estimated that without SSIG at least a dozen States would have no need based assistance available, and nearly a dozen more would sustain a 40-percent cut in their need based assistance without SSIG, and their ability to provide necessary assistance would be seriously threatened.

Moreover, the importance of need based assistance is growing, as other panelists have observed today. And the demographic trends clearly point to an increasing demand for such assistance in the future.

NGA's recommendations concerning SSIG are these. Congress should allow the States to use SSIG to match need based aid and also work-study programs and other forms of student aid.

With regard to the use of SSIG money to support work-study programs, the Governors would observe that the College Work-Study Program clearly does succeed. It enhances education by giving students an immediate motive to be responsible about their education. And it provides activities outside school that seem to have the effect of benefiting students inside school.

Most importantly, the NGA urges the subcommittee to reaffirm the Federal role in postsecondary education itself. The Governors have been in the forefront of those asking Congress to take action to reduce the Federal deficit. But the Governors see Federal student assistance to be an inexpensive investment, where the return is large and long lasting.

The Governors believe that the Federal Government should continue to play an active role in supporting research and development and promoting excellence and in preparing the Nation's work force. But they believe that the direct interest on the part of the Federal and State Governments in student financial aid is important enough to justify the remarks that I've offered today.

NGA appreciates the time and effort that you have devoted in the—to the issues of postsecondary education, and we look forward to working with you, Mr. Chairman, with the committee, and with the staff throughout the process of reauthorization of the Higher Education Act.

Thank you, sir.

[The prepared statement of Hon. Charles S. Robb follows:]

PREPARED STATEMENT OF HON. CHARLES S. ROBB, GOVERNOR OF VIRGINIA, CHAIRMAN, SUBCOMMITTEE ON EDUCATION, NATIONAL GOVERNORS' ASSOCIATION, PRESENTED BY JOHN CASTEEN

Mr. Chairman, members of the Subcommittee, I am pleased to be here today representing Governor Charles S. Robb of Virginia, who is Chairman of the National Governors' Association's Subcommittee on Education. I will be addressing some concerns that have come to light in your reexamination of the federal role in post-secondary education.

Let me begin by commending you for the excellent work you have done in establishing and affirming the federal role in post-secondary education. Leaders in the states, and especially our Governors, appreciate your efforts in the past, and are committed to working with you once again on the important reauthorization of the Higher Education Act.

The nation's Governors recognize the importance of our colleges and universities in providing opportunities for education and training, research in the national interest, and public service. Governors believe that continued improvement of post-secondary education is vital to our economic growth and general welfare. At the same time, Governors value higher education's unique contributions to the quality of our common existence. They are committed to ensuring access to post-secondary educational opportunities without regard to income, race, sex, and handicapping conditions, and to sustaining quality and diversity among our colleges and universities, public and private.

These efforts require shared responsibilities. Federal and state policy must sustain a delicate partnership among the federal government, the states, post-secondary education institutions, and the private sector if higher education is to be maintained and strengthened.

In this context of shared responsibilities, the Governors believe that one of the most critical objectives of the reauthorization of the Higher Education Act should be to reaffirm the role of the federal government in post-secondary education.

The states have long provided a significant portion of the public support for post-secondary education. In 1982, for example, state support represented 68.5 percent of government aid for the current operating budgets of post-secondary educational institutions. Those state dollars help sustain every function of higher education, from instruction to equipment to student financial aid, but they are insufficient *by themselves* to support the entire system. Federal support is equally critical, especially in providing direct assistance to students who demonstrate financial need. A calculated division of responsibilities between the federal and state governments was the backbone of the Higher Education Act of 1965, and it was affirmed in the 1972 amendments. It should be reaffirmed once again in the 1985 reauthorization.

Since 1980, federal support for post-secondary education has eroded. Many Governors view with concern the major policy changes in federal student financial aid programs proposed in the Administration's fiscal year 1986 budget request. These proposals amount to a reduced emphasis on the traditional role of the federal government in ensuring access to post-secondary education. State leaders generally believe that the federal role must be retained. The National Governors' Association would strongly urge the Congress to reaffirm it.

The Governors are concerned that major reductions in federal spending could seriously jeopardize the potential for all students, irrespective of family income, race, or geographic location, to gain access to a post-secondary education. Reducing federal financial assistance or biasing the mixture of grants and loans can reduce the range of choices available to individual students, especially students whose families are poor.

The Governors at the NGA 1985 winter meeting adopted a policy position with regard to the federal role in post-secondary education. In this policy position, the Governors urge the Congress and the federal government to:

1. Maintain federal support for student financial assistance programs;
2. Examine ways to reduce students' increasing debt burden;
3. Address the proper balance between grant and loan programs;
4. Maintain the Pell grant program as the foundation of student need-based financial assistance;
5. Maintain the State Student Incentive Grant Program which has given states incentives to use federal funds to match other forms of need-based student aid programs and provided states with flexibility to use these funds to match state work-study programs.

My statement today will focus primarily on the State Student Incentive Grant Programs.

The Education Amendments of 1972 established an important federal-state partnership in student financial aid—the State Student Incentive (SSIG) Programs. By providing funds through SSIG to match state expenditures for grants to undergraduate students, the federal government encouraged all of the states to create or expand programs of need-based student assistance.

Since 1972, the SSIG program has provided valuable resources in the many states that use the funds to match other need-based student aid programs. It provides leverage to stretch the federal dollar—for every $1 invested by the federal government, $2 in grants are provided to students. Over the years, all states and territories have initiated some type of need-based program, and as the federal commitment grew, so did that of the states. The states' contribution has grown from $400 million in 1974 to $1.4 billion in 1985. In fiscal year 1983, about 200,000 students are receiving SSIG grants, and 53.8 percent of them are students from families with income below $10,000.

The Administration's fiscal year 1986 budget proposal suggests that SSIG should be eliminated because many states have overmatched the federal allocation. The Administration's conclusion is that the program has served its purpose for providing incentives to states. This reasoning is not on target. The states' willingness to do more than they must under SSIG signals not the end of the need for SSIG, but the states' recognition of their own responsibility to meet needs that far exceed the federal estimates.

Two-thirds of the SSIG overmatch is in five states. At least a dozen states are able to meet only the minimum match required. Those states that have newer grant programs are particularly dependent on SSIG funds to maintain their need-based grant programs. In eight states the federal share of SSIG funds actually accounts for less than five percent of their state grants. Three of these states (New York, Illinois, and Pennsylvania) contribute more than half of the overmatch nationwide, with New York alone accounting for 36 percent of the total. On the other hand, there are 23 states where SSIG funds plus state match account for more than 40 percent of the state grant programs, including 15 states where SSIG plus the state match represent more than 80 percent of the available student grants. Of these 23 states, 20 did not have need-based grant programs before SSIG.

Elimination of the SSIG matching grants would have a significantly adverse effect on need-based student aid, especially in small states and in states that have newer grant programs. A recent study conducted by the General Accounting Office (GAO) found that, without federal support, at least a dozen states were likely to terminate entirely their need-based assistance programs because of the other fiscal demands on state resources.*

The proposal to terminate federal participation in SSIG fails to recognize the importance of the federal/state partnership developed in providing student aid since 1972. State aid has become an important supplement to the federal aid programs. In addition, SSIG matching grants provide institutions some flexibility in packaging financial aid to students based on demonstrated needs. For state aid programs to grow further requires time and resources, since the states would need to contribute not just the federal matching funds but also the costs of planning and administration. Eliminating or reducing SSIG appropriations would jeopardize the potential of at least 15 to 20 states to continue to develop their need-based aid programs.

There is also the question of future need. Ongoing demographic changes suggest that more students will need governmental assistance to finance their post-secondary education in the future. These students are largely minority, low-income, women, and adults who may need specialized education and training. These needs are already provided by many states to reexamine their own roles in post-secondary education. These same forces, we believe, should persuade the federal government to sustain or expand SSIG, not to abandon it.

One approach might be for Congress to allow states to use SSIG to match not only other need-based aid programs, but also state work-study programs and other alternative approaches to assisting students. College work-study works: it enhances education by giving students an immediate source of responsibility. As an instrument of national policy, it is inexpensive, effective, and widely understood.

In summary, the National Governor's Association would urge the Subcommittee to reaffirm the federal role in post-secondary education. The Governors recognize that the Congress must act to reduce the deficit. However, they support continuing and maintaining the federal student assistance aid policy as contained in the cur-

* U.S. General Accounting Office, Funding Information on the State Student Incentive Grant Program and Other Need-Based Student Aid Programs of Selected States, (Washington, D.C.: Government Printing Office, 1983, p. 10.

rent legislation because they see this support as an inexpensive investment (by comparison to other federal commitments) where the return is large and long lasting. We believe that the federal government should continue to play an active role in supporting research and development at post-secondary educational institutions, in promoting excellence in post-secondary education, and in preparing the work force.

The National Governor's Association appreciates very much the time and effort that you have devoted to the post-secondary education. We look forward to continuing to work closely with you, the members of the Subcommittee, and your staff on the reauthorization of the Higher Education Act.

Mr. FORD. Mr. Shook.

STATEMENT OF KENNETH SHOOK, STATE SCHOLARSHIP BOARD OF MARYLAND

Mr. SHOOK. Thank you very much, Mr. Chairman.

My name is Dr. Kenneth Shook. I'm the president of the National Association of State Scholarship and Grant Programs.

Just recently, we held a conference here in Washington. And we certainly appreciated the participation of some of you here in the room at our conference because it added a great deal to our desire for a stronger Federal, State partnership in student financial aid.

I'm here mainly to talk about the SSIG Program. We are entering the 12th year of SSIG. And I think, if you look back at the original goals that were established, perhaps in the early seventies, one of the goals was to develop a Federal-State partnership, which I would argue we now have developed.

Another goal was to motivate States to increase their efforts or to start new grant programs. I would argue that has been accomplished. And it will continue to be accomplished if the SSIG Program is allowed to continue.

And, of course, it is always the desire of any student aid program to help more needy students go ahead and attend higher education.

To look back at 1973, I think it's important to realize that only 28 States, at that time, had programs totaling about $315 million. They were helping about 660,000 students.

Today, all of the States have grant programs. The total funding of these programs is $1.4 billion, helping about 1.3 million students.

If you wanted to accomplish this, you have done so. The States have been motivated, they are now working very diligently to put money into the programs, and more students are being helped.

However, as you have already heard, even though the average State increase this past year was a whopping 17 percent, we still have a number of States, roughly 15 to 20, that claim that they would go out of existence with their State grant programs were it not for the SSIG.

The States that I fear will have the major problems are those that have about a 50-50 match and nothing more.

Can you imagine what will happen if you wipe out half of their grant funds? To wipe out half the funds, it means you help half as many people, or it means you cut all the awards in half. That's the way you'd do it. But the average SSIG award right now is $500. And I would tell you I don't think you want to cut that award in half to allow these States to survive with their existing programs.

We need the SSIG Program in there.

In 1984-85, as I said before, about $1.4 billion will be given out through State programs to 1.3 million students.

In looking at the SSIG Program alone, we are now funding with SSIG Federal funds $76 million. That is far below the original goal. The original goal was to have this program grow and grow until it reached about $250 million. You have never gotten above about $76 million.

But keep in mind, the money you have put into SSIG, which is about $500 million, has been doubled. Show me your other programs where you double your input. You put in $500 million Federal. The States have at least matched this. So, as a result, over $1 billion has gone to students under that labeling of SSIG.

If you look at the $76 million that's going to be put in this year in SSIG from the Federal side, that will go to 50 States, also Puerto Rico, District of Columbia, and these areas, and eventually over 300,000 students will be helped.

Can you imagine how much good you would do if you allow the program to go ahead and grow? It was supposed to go to $250 million. If you triple your program, look at the implications, because you are also increasing the State effort. That's part of the idea. The States have to match this with new money, not from Federal sources. And I would think this would be one of the things everyone would want.

I would also like to make the observation that the administrative costs for SSIG are absorbed by the States. No SSIG funds can go to cover administrative costs, which, again, I would think would be a plus.

Are we helping needy students? Yes, indeed. But we're also looking into the programs that the students must be making satisfactory progress. And I think we're all interested in quality as well as quantity. The students must not have defaulted on loans. So, in other words, the money is going to students that are deserving of these types of assistance.

Another great plus, I think, for putting Federal money through the State operation is that you are still adding some portability. I have nothing at all against campus-based programs, but they are not portable.

Your Federal Pell Program is portable. It is a beautiful example of the extreme, the great benefit of portability, taking the money with the student when you transfer.

I would point out to you that most States, today, offer some portability with the SSIG Program. And, again, I think that's something you would not want to lose. Certainly, there is portability within the State, going from one type of school to another. But, in addition, there is often portability out of a State.

So, these are very nice characteristics of a SSIG program which would not be available through the campus-based concept.

The last thing I will mention in closing is the appeal that you give lead time. And I'm sure you've heard this over, and over, and over again. Whatever you're going to do, do it in a timely fashion so that everybody knows what's coming.

I'm worried from two standpoints. One. If you want the States to use SSIG funds as a leverage to get more State money, obviously we need lead time to do it. But beyond that I'm also concerned for the student. As you can well imagine, every time we hear a rumbling in Washington that budgets are going to be cut, those of us

who are very involved know enough about the system to say, well, probably it won't happen, or it will not happen to the extent that the newspapers say.

But I would call to your attention that there is a general public out there, the students and their parents, who believe it. And I'm pointing out to you that when they believe that certain things are going to result what's going to happen is, many people will not even seek the student financial aid because they feel it's a lost cause.

This year, early in the application process, the applications for student aid were down. Why were they down? Because the impression was coming out of Washington we're going to have major shakeups, problems.

So, that's not the way to solve the problem. I think we have to sell students on the security of student financial aid, that it is here, we recognize it's serving an important purpose. And let's give everybody the lead time they need to truly seek out financial aid and then properly utilize it.

Thank you very much, Mr. Chairman.

[The prepared statement of Kenneth Shook follows:]

NATIONAL ASSOCIATION OF STATE SCHOLARSHIP AND GRANT PROGRAMS,
July 7, 1985.

Hon. WILLIAM FORD,
Chairman, Subcommittee on Postsecondary Education, Committee on Education and Labor, U.S. House of Representatives, Washington, DC.

DEAR MR. CHAIRMAN: Attached are the position papers of the National Association of State Scholarship and Grant Programs. The Reauthorization Proposal for State Student Incentive Grant Program was officially accepted by the Association at our business meeting on June 6, 1985.

As President of NASSGP, I am pleased to testify in behalf of the continuation of SSIG. This student aid program truly symbolizes the best aspects of a desired federal-state partnership in helping financially needy students. The SSIG program has proven its worth, and future expansion of funding levels can certainly be justified.

Sincerely,

H. KENNETH SHOOK,
NASSGP President.

NATIONAL ASSOCIATION OF STATE SCHOLARSHIP AND GRANT PROGRAMS
REAUTHORIZATION PROPOSAL FOR STATE STUDENT INCENTIVE GRANT PROGRAM

Since its establishment in 1972, the State Student Incentive Grant Program (SSIG) has encouraged all states to create some form of state grant program to assist students who have financial need. The program not only directly benefits students, but it also is perhaps one of the few examples of how the federal government and the states can work in partnership to meet citizens' needs. In addition, it demonstrates impressively one way in which federal dollars can be leveraged successfully to increase their total effect.

The SSIG program continues to be a significant inducement to the states to maintain a statewide need-based program open to students in the various sectors of higher education. In fact, studies indicate that without the program, some 20 states might find it necessary to abandon their broad-based effort to help students. In other states, however, particularly those in which the SSIB program represents a relatively small portion of their overall student aid program, both the states and the federal government might realize an even greater return on their investment by allowing the states increased flexibility in the use of the funds.

The primary goal of the SSIG program should continue to be that of encouraging the states to assist students. Within this context, each state should determine if it can best use the funds to continue a statewide need-based financial aid program or to establish or augment one or more of the following activities:

1. A state work-study program;
2. A special program of assistance to adult learners; or

3. A coordinated program of financial aid outreach services.

State Work-Study Program—A number of states recently have established or authorized a statewide work-study program. Some of the programs would assist students in furthering their educational or career goals in addition to obtaining money to meet college costs. Others would promote a business-higher education partnership by permitting the students to work in for-profit as well as non-profit agencies and organizations. State work-study programs generally are popular with students and are enthusiastically supported by state legislators and citizens.

Special Program to Provide Assistance to Adult Learners—Many citizens over 25 years of age have special needs which compel them to enter college, often for the first time. Many of these individuals need special training or re-training in order to obtain necessary job skills. Very often they need financial aid but do not qualify because job or family commitments force them to be less than half-time students. The federal government and the states could cooperate in establishing special programs to assist such students when they are enrolled in courses applicable toward a degree, diploma, or certificate program.

Coordinated Program of Financial Aid Outreach Services—Recent research has documented a continuing need to provide more information to students—and their parents—about the availability and eligibility requirements pertaining to student aid. The studies have documented that many students must have the information during their middle-school years in order to plan appropriate high school courses of study that will prepare them for college. Very often, the students—and, again, their parents—need assistance in completing student aid applications and in understanding the responsibilities associated with accepting grant, loan, and work assistance.

If the states are provided increased flexibility to target SSIG funds to one or more of the specific needs described above, several special provisions should be in effect:

1. No more than 10 percent or $100,000, whichever is lesser, of the federal funds allotted annually to a state under the program should be used to provide financial aid outreach services;

2. A state receiving SSIG funds should be required to provide a direct state match of the funds. No indirect match, as, for example, through the institutions, should be permitted;

3. The allotment to a state under the program should be proportionally decreased if the state does not permit—for whatever reasons—students attending proprietary institutions of higher education to receive benefits under the program; and

4. The maximum federal portion of a full-time student's grant under the program should be increased from $1,000 to $1,500. This modification simply recognizes the increasing cost of education to the students and their parents and ensures that prorated grants, especially for adults who are less than half-time, are of sufficient size to meet the cost of courses when they are charged to students by the credit hour.

Finally, to meet the needs identified here will require a larger appropriation than currently is provided to the program. Although no specific amount is requested, it is suggested that the authorized appropriation for the next five years remain at the level ($250 million) currently authorized for fiscal year 1985.

The Importance of the State Student Incentive Grant Program in Providing Financial Aid to Students

PREPARED BY THE NATIONAL ASSOCIATION OF STATE SCHOLARSHIP AND GRANT PROGRAMS

The Education Amendments of 1972 recognized the developing partnership between the federal government and the states in providing financial aid to students. As a part of the Amendments and to encourage the further growth of state programs-Congress established the State Student Incentive Grant (SSIG) Program.

SSIG program funds are distributed among the states based on their postsecondary enrollments. To qualify for the funds, states must match federal allocations dollar-for-dollar and comply with a series of federal regulations governing the criteria for awarding SSIG grants. Nearly $500 million in federal support has been provided through the SSIG program since it was first funded in 1974. Because of the matching requirement, therefore, at least one billion dollars in additional student aid has gone to students during this period. However, the federal allocation for the program has never exceeded $76.75 million in any fiscal year.

Since 1972, the SSIG Program has been the catalyst to encourage the development in all 50 states of some form of grant program to assist students who have financial need. In 1973, 28 states administered undergraduate student aid programs, awarding $315 million to over 660,00 students. In the current academic year, the

states will provide over $1.4 billion in grant assistance to some 1.3 million students. The SSIG Program alone is expected to assist about 304,000 students in 1984-85.

The SSIG Program continues to be a significant inducement to the states to fund at least one statewide need-based program open to students in the various sectors of higher education. In fact, studies indicate that without the program, some 20 states might find it necessary to abandon their broad-based effort to help financially needy students.

Although the SSIG Program continues to fulfill its original objective, the program has never realized its full potential, largely due to lack of funding and the absence of a strong commitment to ensuring the success of the federal-state partnership. Nevertheless, the program is a model of how the federal government and the states can cooperate in establishing coherent aid programs that effectively leverage (through the one-for-one match) available federal dollars. Rather than being abandoned, the leveraging concept should be expanded.

Both the states and the federal government could realize an even greater return on their investment by allowing the states increased flexibility in the use of SSIG program funds. The National Association of State Scholarship and Grant Programs, as well as the higher education community generally, will offer recommendations to this effect during the reauthorization of the Higher Education Act.

Mr. FORD. Mr. Carson.

STATEMENT OF WILLIAM C. CARSON, PRESIDENT, AMERICAN TECHNICAL INSTITUTES

Mr. CARSON. Mr. Chairman, members of the subcommittee, I appreciate the opportunity to present the views of the National Association of Trade and Technical Schools, which is generally known as NATTS, concerning the Campus-Based Aid Programs and the grant allotment formulas as they affect students attending our schools.

I am Bill Carson, president of the American Technical Institutes, and also an officer and member of the board of NATTS, and have been actively involved in postsecondary occupational education for over 17 years.

In the interest of time, this morning, I am going to omit the description of NATTS, which is in the written material, and which we have included in earlier testimony.

Our purpose in testifying this morning is to point out inequities that exist currently in certain aspects of these programs. These inequities have the effect of limiting opportunities for some individuals to acquire the skills necessary to obtain steady and productive employment.

Our recommendations are designed to eliminate the barriers which now prevent students who attend NATTS schools from participating fully in certain federally sponsored programs.

First, the college work-study. We recommend that the statute be changed to allow proprietary school students to use their college work-study funds for jobs on the campus. This change would eliminate the last remaining distinction that exists in the title 4 legislation between students attending proprietary and nonprofit institutions.

Students attending proprietary institutions could benefit by use of the college work-study funds for many activities, including work in the student aid office, career counseling office, student activities office, and for tutoring students with academic problems.

Nonprofit institutions currently use 85 percent of their college work-study for jobs on their campuses.

The traditional concept of the College Work-Study Program is that it is a student aid program and not a work program per se. The Congress made conscious decisions in the 1980 educational amendments not to relate the type of work done by a student in the College Work-Study Program to the academic course work that the student was taking, intending that kind of connection to be achieved by the Cooperative Education Program.

The value of relating financial aid directly to work, however, has been recognized by the increased amounts appropriated for college work-study.

Most NATTS students are commuter students, attending classes 5 hours a day, and, therefore, commuting to and working on an off-campus job can be extremely difficult.

Thus, in the many cases in which a student cannot, as a practical matter, be located in a nonprofit organization and it precluded from work at his own school, he or she is effectively prevented from participating in the Work-Study Program.

Because of the background of the students at proprietary schools, this affects individuals who could most benefit from participating. We urge that this inequity be eliminated.

The State Student Incentive Grant Program. We recommend that the statute be changed to deny State student incentive grant payments to any State which discriminates against students based on their choice of school.

In spite of the equality provided in most of the title 4 student aid programs, the discretion given to States still adversely impacts many students attending proprietary schools. For example, only a small number of States allow State grants to be given to proprietary school students. In most States, because of State constitutions or statutes, limited funds, or other restrictions, grants are only provided to students attending nonprofit institutions or studying for a degree.

However, the current Federal law allows States which do not give State aid to proprietary students, nonetheless, to include those students in the count of their postsecondary students for the allocation of State student incentive grant funds.

In other words, our students are counted in those States, even though no awards are given to them.

Again, there is no incentive in the Federal law to entice States to open all their State Grant Programs to proprietary students. Moreover, there is no disincentive for not making them eligible.

It would appear that this is another area where the barriers must be removed so that all students may participate equitably. It is unfair and inconsistent for a State to provide no grants for proprietary school students, but still count them for the allocation of State incentive grant funds.

In the suggested amendments that we submitted to the subcommittee, an additional year was provided to allow States to take legislative action to expand State grant eligibility if that is necessary.

On the campus-based allocation formula, we recommend that the statute be changed to eliminate apportionment of funds to States. Instead, we recommend that funds be allocated directly to educational institutions based upon the demonstrated financial need of the students attending those institutions.

This analysis should be performed annually, rather than locking in a school's funding through a system of conditional guarantees.

Under current law, funds are allocated to institutions based upon the number of students in each State. We feel that this apportionment should be eliminated so that the differences in economic strength of students in different States can be recognized.

When the funding system was first developed, the present two-step procedure was necessary for control purposes, as regional panels might employ different standards in approving funds to schools. If region A were generous, where region B were strict, a national allocation system would penalize students in region B.

Under the current system, however, an institution's aggregate need is determined objectively through a formula so that the State allocation apportionment is no longer necessary and can even distort the funding to students in certain States.

We also feel that Congress should eliminate the system of conditional guarantees, whereby funds are allocated to institutions based primarily upon the amount spent by schools during a fixed year, 1979–80 for SEOG and college work-study, and 1980–81 for NDSL.

Only a limited amount of funds, commonly called fair share dollars, are available for distribution to schools based upon demonstrated need. The needs of students in many NATTS schools have changed substantially from the 1979-80 period because of growth in enrollment or changes in the economic situation of the individuals.

This observation is corroborated by the fact that proprietary schools' total share of allocations is higher than their share of conditional guarantees, thereby indicating that the demonstrated need of students attending proprietary schools is greater than the amount received through the fixed allocation.

Another problem which must be remedied is that under the current system, even if a school receives fair share dollars and fully utilizes them, there is little assurance that they will maintain that funding level in future years. Therefore, we feel that an annual analysis of need is more equitable.

Mr. Chairman, we made two recommendations on program administration and the national direct student loan default rate. But I will leave those out in my oral testimony and answer questions if there are any.

But I would want to reiterate that all of the above recommendations are designed to eliminate inequities which prevent students attending NATTS schools from properly participating in certain of the federally sponsored programs.

We believe that a student should not be discriminated against because of the school he or she chooses to attend.

Mr. Chairman, I thank you for this opportunity to present our views concerning the campus-based programs; and the grant aid allotment formulas could be improved to remove discrimination against students attending our institutions.

I will attempt to respond to any questions that you or members of the committee may have. Thank you.

[The prepared statement of William C. Carson follows:]

PREPARED STATEMENT OF WILLIAM C. CARSON, PRESIDENT, AMERICAN TECHNICAL INSTITUTES ON BEHALF OF THE NATIONAL ASSOCIATION OF TRADE AND TECHNICAL SCHOOLS

Mr. Chairman. Members of the Subcommittee. I appreciate the opportunity to present the views of the National Association of Trade and Technical Schools (NATTS) concerning the campus-based aid programs and the grant allotment formulas as they affect students attending our schools.

I am William C. Carson, President of American Technical Institutes. I am also an officer and a member of the Board of Directors of NATTS. I have been actively involved in postsecondary occupational education for over 17 years.

THE NATIONAL ASSOCIATION OF TRADE AND TECHNICAL SCHOOLS

The National Association of Trade and Technical Schools (NATTS) is an association of 835 accredited private postsecondary occupational schools and branch campuses. Our schools are job-oriented and dedicated to serving training needs of students and employers. Over 100 training programs are available in our schools which are located throughout the country. There are an estimated 250,000 students representing a broad range of income and racial backgrounds enrolled in these institutions.

Our schools are oriented to the market demand, sensitive to society's demands for career-related training, and know how shifts in the labor force are affecting particular occupations. "Hands-on" training, frequent starting dates for rapid access, an accelerated pace of training, flexible teaching schedules, work-related atmosphere, and a heavy emphasis on job placement are all innovations introduced by occupational schools to serve the training needs of business and industry.

PROFILE OF STUDENTS

In order to give you a profile of students attending occupational schools, we would like to refer to a 1983 study conducted by the National Commission on Student Financial Assistance entitled, Proprietary Vocational School and Federal Student Aid: Opportunities for the Disadvantaged.

The national study was significant because it was the first attempt to provide data on the characteristics of proprietary students receiving financial aid and the packages of student aid received by those students. Let us highlight a few of the basic points of the report:

Over half to nearly two-thirds of the students at proprietary schools applied for financial assistance.

The proprietary sector is providing financial assistance to individuals with an average age of 25.

54% of those receiving financial assistance are from minority groups.

56% of those receiving financial assistance come from family incomes under $6,000.

Proprietary schools serve a greater proportion of independent or self-supporting students; 54% of those receiving aid at proprietary schools do not have any parental support.

STATEMENT OF PURPOSE

Our purpose in testifying this morning is to point out inequities that exist currently in certain aspects of these programs. These inequities have the effect of limiting opportunities for some individuals to acquire the skills necessary to obtain steady and productive employment. Our recommendations are designed to eliminate the barriers which now prevent students who attend NATTS schools from participating fully in many federally-sponsored programs.

COLLEGE WORK-STUDY

Recommendation

We recommend that the statute be changed to allow proprietary school students to use their college work-study funds for jobs on campus.

Rationale for change

This change would eliminate the last remaining distinction that exists in the Title IV legislation between students attending proprietary and non-profit institutions. Students attending proprietary institutions could benefit by the use of college work-study funds for many activities, including work in the student aid office, the career

counseling office, the student activities office, and for tutoring students with academic problems. Non-profit institutions currently use 85% of their college work-study for jobs on campus.

The traditional concept of the college work-study program is that it is a student aid program and not a work program per se. The Congress made a conscious decision in the 1980 educational amendments not to relate the type of work done by a student in the college work-study program to the academic coursework that the student was taking, intending that kind of connection to be achieved by the Cooperative Education Program. The value of relating financial aid directly to work has been recognized by the increased amounts appropriated for college work study.

Most NATTS students are commuter students attending classes five hours each day, and, therefore, commuting to and working on an off-campus job can be extremely difficult. Thus, in the many cases in which a student cannot as a practical matter be located in a non-profit organization and is precluded from work at his own school, he or she is effectively precluded from participating in the work/study program. Because of the composition of the students at proprietary schools, this affects individuals who could benefit significantly from participating.

We urge that this inequity be eliminated.

STATE STUDENT INCENTIVE GRANTS

Recommendation

We recommend that the statute be changed to deny state student incentive grant payments to any state which discriminates against students based on their choice of school.

Rationale for change

In spite of the equality provided in most of the other Title IV student aid programs, the discretion given to the states still adversely impacts many students attending proprietary schools. For example, only a handful of states allow state grants to be given to proprietary school students. In most states, because of state constitutions or statutes, limited funds or other restrictions, grants are only provided to students attending non-profit institutions or studying for a degree. However, the current federal law allows states which do not give state aid to proprietary students nonetheless to include those students in the count of the postsecondary students for the allocation of state student incentive grant funds. In other words, our students are counted in those states even though no awards are given to them. Again, there is no incentive in the federal law to entice states to open all their state grant programs to proprietary students. Moreover, there is no disincentive for not making them eligible.

It would appear that this is another area where the barriers must be removed so that all students may participate equitably. It is unfair and inconsistent for a state to provide no grants for proprietary school students, but still count them for the allocation of state incentive grant funds.

In the suggested amendments that we submitted to the Subcommittee, an additional year was provided to allow states to take legislative action to expand state grant eligibility, if necessary.

CAMPUS BASED ALLOCATION FORMULA

Recommendation

We recommend that the statute be changed to eliminate apportionment of funds to states. Instead, we recommend that funds be allocated directly to educational institutions based upon the demonstrated financial need of students attending those institutions. This analysis should be performed annually, rather than "locking in" a school's funding through a system of Conditional Guarantees.

Rationale for change

Under current law, funds are allocated to institutions based upon the number of students in each state. We feel that this apportionment should be eliminated, so that the differences in economic strength of students in different states can be recognized.

When the funding system was first developed, the present two-step procedure was necessary for control purposes as regional panels might employ different standards in approving funds to schools. If Region A was generous, where Region B was strict, a national allocation system would penalize students in Region B. Under the current system, however, an institution's aggregate need is determined objectively

through a formula so that the state allocation apportionment is no longer necessary and can even distort the funding to students in certain states.

We also feel that Congress should eliminate the system of Conditional Guarantees whereby funds are allocated to institutions based primarily upon the amounts spent by schools during a fixed year (1979-80 for SEOG and College Work-Study, and 1980-81 for NDSL.) Only a limited amount of funds, commonly called fair share dollars, are available for distribution to schools based upon demonstrated need. The needs of students in many NATTS schools have changed substantially from the 1979-80 period, because of growth in enrollment or changes in the economic situation of the individuals. This observation is corroborated by the fact that proprietary schools' total share of allocations is higher than their share of Conditional Guarantees, thereby indicating that their demonstrated need is greater than their fixed funding level.

Another problem which must be remedied is that under the current system, even if a school receives fair share dollars and fully utilizes them, there is little assurance that they will maintain that funding level in future years. Therefore, we feel that an annual analysis of need is more equitable.

PROGRAM ADMINISTRATION

Recommendation

We recommend that the statute be changed to allow greater flexibility to transfer funds between the Supplemental Education Opportunity Grant, College Work-Study and National Direct Student Loan Programs.

Rationale for Change

Currently, institutions can transfer funds between the SEOG and CWS programs. Since NDSL and CWS are considered self-help programs, the law should provide for similar authority with NDSL. Giving the institutions greater transfer authority would enhance the ability of the institutions to better meet the specific needs of their students.

NATIONAL DIRECT STUDENT LOANS (NDSL)

Recommendation

We recommend that the statute be amended to include a provision which would waive the default standard for new capital contribution eligibility if the institution shows a significant improvement in decreasing defaults over the previous year.

Rationale for Change

Such an incentive was included previously in regulations put forth by the Department of Education, but was later removed. This incentive had a very positive effect on encouraging institutions to take measures to decrease their NDSL default rates.

SUMMARY

We wish to reiterate that all of the above recommendations are designed to eliminate inequities which prevent students attending NATTS schools from properly participating in certain federally-sponsored programs. We believe that a student should not be discriminated against because of the school he or she chooses to attend.

Mr. Chairman, I thank you for this opportunity to present our views on how the campus-based aid programs and the grant aid allotment formulas could be improved to remove discrimination against students attending our institutions. I will attempt to respond to any questions that you or other members of the Subcommittee may have about the points I have raised.

Mr. FORD. Mr. Tracey?

STATEMENT OF BURKE TRACEY, EXECUTIVE DIRECTOR, COALITION OF HIGHER EDUCATION ASSISTANCE ORGANIZATIONS

Mr. TRACEY. Mr. Chairman and members of the Subcommittee on Postsecondary Education, my name is Burke Tracey, and I am executive director of the Coalition of Higher Education Assistance Organizations, COHEAO.

I appreciate this opportunity to appear and present our position on a matter of extreme importance to not only our members, but the entire academic community and the Nation as a whole.

COHEAO membership is comprised of some eighty-five colleges, universities and their contracted student loan billers and collectors. COHEAO is incorporated in the District of Columbia as a nonprofit corporation dedicated to higher education assistance through the efficient delivery and maximum recovery of student loans.

COHEAO shares with former OMB Director Stockman, Education Secretary Bennett, the President of the United States, and many others grave concern over the national deficit.

We do not necessarily agree, however, with their recommended remedial action. We do not agree, for example, that the answer to deficit reduction lies in the curtailment or dissolution of student assistance programs. Quite the contrary. The economic welfare of the Nation rests on the maximum education of its citizenry. The availability of that education is a primary responsibility of Government. And I live in fear of those who would shirk the responsibility in deference to the short-term benefits of debt reduction.

Student assistance programs contribute to rather than drain the economy, and, therefore, they should be preserved at all costs.

While there is much to be said for all student assistance programs, I will devote the limited time allotted to me today to a brief discussion of the National Direct Student Loan Program. I do so because NDSL is one of the most viable programs that exists and, paradoxically, one that appears to be most threatened by the current stampede to eliminate Federal services in the academic arena.

In the early days of our country, a sixth grade education was adequate. A man needed only to know how to follow a plow, ride a horse, and handle a gun. A woman needed only to know how to cook, and sew, and keep house. These skills and the three R's rounded out the needs of that era.

As life became more sophisticated, so did our educational needs. And 12 years of schooling became, in most cases, not only necessary but mandatory.

With the advent of the Russian Sputnik, the need for more advanced education became urgent. To meet the challenge of computerized technological competition, the National Defense Student Loan Program, later known as the National Direct Student Loan Program, was initiated.

Was NDSL successful? You have only to look at the Nation's present space superiority to find the answer to that question. No way can we watch a Challenger return to Earth or a satellite placed in orbit without recognizing the success of an even greater mission accomplished.

That accomplishment is the broadly expanded education of our citizenry and the resultant improved quality of life. That explosive upsurge in academic development was very much attributable to NDSL.

Was NDSL expensive? Obviously, the cost weighed against the accomplishments made it all worthwhile. The cost weighed against what it should have cost, however, shows it to have been exorbitantly expensive and this is perhaps why there are those who would target the elimination of NDSL as a money saving exercise.

Nothing could be further from fact. The high cost factor was a result of poor administration and general mismanagement of the program. For about 20 years after the program was inaugurated, the Government concentrated its attention on how to give money away, and they provided little or no guidance on methods of recovery. This was a period notorious for Government give away philosophy.

NDSL is based on a revolving fund concept and should be self-sustaining. Returning funds should replenish the reservoir and need to be augmented very little to defray operating expenses. This is the scenario.

Failure to meet it or approximate it is not due to anything inherent in the program, but rather to human failure. The handling of NDSL was fraught with failures on the part of the schools, the students, and especially the Department of Education.

An outstanding example of the ineptitude of the Department of Education in its handling of the NDSL Program which has had a deleterious effect is the so-called referral of delinquent loans. The Department initiated a program 5 years ago, close to 6 years ago now, inviting the institutions to refer their delinquent NDSL loans to the Department for collection.

The Department was committed to deliver 80 percent of the money collected to the schools and retain 20 percent to cover collection costs. It's estimated that the Department has collected $18 million of the $146.5 million which was referred on 162,319 delinquent accounts. Of this amount, it has returned only about $25,000 to schools, and that only after pressure was exerted by COHEAO through public exposure.

On September 13, 1984, the day after the delinquency was brought to light through an article in The Chronicle of Higher Education, we received assurance from Dr. Elmendorf, then Assistant Secretary for Postsecondary Education, that the Department would begin reimbursements to the schools in the fall, and reimbursements would be—all reimbursements would be made by the spring of 1985.

We are now advised that the Department doesn't expect to accomplish any further reimbursement this year. They blame the schools for the delay. But the fact of the matter is that the Department entered into this project unqualified and ill-equipped.

The tragic result is that millions of dollars are being withheld from the NDSL revolving funds. The exact amount of money is not known, for the Department of Education is either incapable or unwilling to release that information.

I would like to insert in my remarks, at this point, an echoing or Mr. O'Neill's suggestion that the NDSL Program be renamed the Carl Perkins Program.

And I have in my files, and it's a matter of personal pleasure to me, a letter that was written to me by Mr. Perkins the day before his death. And it included a letter that he addressed to Secretary Bell, asking that the Department of Education meet their commitment to these schools by returning this money.

In any event, steps have been taken to eradicate the shortfalls that exist that have resulted in defaults. As testimony to this fact,

COHEAO has provided, for the record, clearly delineated evidence extracted from the Department of Education's own records.

The NDSL default rate which was 11.9 in 1979, had falled to 9.48 in 1983, and is expected to fall to 7.71 by 1988. The present default rate is in the neighborhood of 8.95.

But enough has been said about the cost of higher education, and not enough has been said about the benefits. Four-and-a-half million individuals have accomplished their goals of higher education through NDSL assistance. If we were to assume that half of these would have obtained their degrees through other means, that still leaves 2¼ million. And it's an accepted fact that a college graduate will earn more than $20 thousand more taxable income per year than a noncollege graduate.

If we multiply the number of NDSL educated people by the additional earned taxable income that has resulted from their advanced education, we would drown in the figures.

Then, recognizing that 90 percent of these individuals paid back their obligations in full, and the moneys have been repeatedly reused, you will find that educating our youth through NDSL is one of the most sound investments in the future of America that the Government could possibly make.

The detractors of this program would have you believe that the funds borrowed are squandered on luxury items and high living. They would suggest that there's something sinful about owning a car or a stero or taking a vacation. But, with the exception of a few anachronistic religious groups, these are the accepted emoluments of our society, and they have been hard earned.

Only in America can such material rewards be taken for granted.

Higher education is also a reward that must be kept available to all our people, and they should not have to be reduced to sack cloth and ashes to avail themselves of it. Permission to participate should not rest exclusively on indigence.

I have grave concern with the philosophy that would equate higher education assistance with dole to be handed out only to the destitute. Maximum educational opportunity must be for all the people if it is to achieve its purpose. It is not to be treated as a gratuity, but rather as an investment in the future of our country.

Higher education of our people will contribute more to our national security than all the armaments we can muster and cost a hell of a lot less.

In the national interest, let us turn our attention to the expansion of this program and seek economies in those many areas where Government waste abounds.

In the appeal which we present today, COHEAO is sounding an urgent SOS—Save Our Schools. You can perform no greater public service than throwing full support behind the preservation of our student assistance programs, and the greatest of these is NDSL.

COHEAO has prepared and submitted an in-depth economic evaluation of the NDSL Program. A copy of that position paper, with a copy of my remarks, was here made available to all interested parties.

I thank you for your attention. And I hold myself available if I may be of further service.

[The prepared statement of Burke A. Tracey follows:]

PREPARED STATEMENT OF BURKE A. TRACEY, EXECUTIVE DIRECTOR, COALITION OF HIGHER EDUCATION ASSISTANCE ORGANIZATIONS

For many years, policymakers have assumed that the cost of providing student loan capital under the Guaranteed Student Loan program (GSL) was less than the cost under the National Direct Student Loan program (NDSL). Partially as a result of the assumption, the GSL program has grown rapidly while the NDSL has not. Currently more than $10 in GSL funds is made available to students for every $1 of NDSL.

This statement summarizes recent work by two independent researchers who suggest that NDSLs are slightly less costly to the federal government than GSLs. The paper also discusses recent improvements in the NDSL dafault rate which can be expected to result in a further improvement in total NDSL program costs.

MCDERMOTT STUDY

Earlier this year, David M. McDermott, Controller for Contracts and Grants at Metropolitan State College in Denver, Colorado prepared a paper relating to the relative costs of the various federal student aid programs. His study utilized unpublished data received by him from the U.S. Department of Education.

The study analyzed the federal costs incurred for each of the major federal student aid programs. The results were as follows:

In the Pell Grant program, $1 in federal costs is incurred for each $1 in Pell assistance awarded to students. Additional federal costs are incurred in the form of administrative allowances paid to institutions in connection with the program.

In the Supplemental Educational Opportunity Grant Program (SEOG), costs of $1.05 per $1.00 in SEOG funds made available to students are incurred, counting related administrative costs.

In the College Work-study program, federal costs are only $.85 per dollar of assistance, because the twenty percent institutional match offsets part of the aid provided and the related administrative costs.

In the Guaranteed Student Loan program, costs of $.65 are incurred per dollar of GSL funds made available to students, assuming a 10 percent 91 day Treasury Bill rate, according to the Department of Education.

In the National Direct Student Loan program (NDSL), total federal costs are only $.56 per $1.00 of loan capital made available.

Obviously, the comparison of grant and loan student aid is not appropriate. The two forms of aid have significantly different objectives. Comparing the two major loan programs, however, demonstrates how the different operational and financial structures of the two programs result in the NDSL program having a lower cost per dollar than the GSL program.

The Guaranteed Student Loan program operates through the use of loan capital provided by banks and other lenders rather than through the use of federal capital. In order to use this private-sector capital, subsidies are paid to lenders by the federal government in several forms. The authorizing statute requires the payment of these subsidies under the contracts that are entered into with lenders, thus establishing the GSL program as an entitlement. As a result, the Congress must make appropriations each year to met the various interest, insurance, and other financial obligations incurred on behalf of student borrowers.

The federal costs incurred in the GSL program fall into the following categories:

An in-school interest subsidy. This subsidy is paid by the federal government to lenders on an annual basis in an amount equal to the student borrower's stated interest rate (7, 8, or 9 percent). Payments of the in-school interest subsidy cease when a student ceases to attend an educational institution on a less than half-time basis, plus a six-month grace period.

A "special allowance" subsidy. This second interest payment is also paid to lenders or holders of GSL notes on a quarterly basis. It is calculated by adding 3.5 percent to the 91-day T-Bill rate for the previous quarter, and subtracting the borrower's applicable interest rate. Thus, if the average T-Bill rate were 10 percent, the special allowance paid on an 8 percent GSL would be 5.5 percent (10 plus 3.5 minus 8 equals 5.5).

Reimbursement of default losses. In the GSL programs, lenders are insured against loss by default by state or private non-profit guarantee agencies. these entities guarantee GSLs with the support of a federal program of "reinsurance". Reinsurance usually covers 100 percent of default losses, but less is covered if the guar-

antee agency has a high rate of default. In the current fiscal year, default losses covered under reinsurance are expected to exceed $800 million.

Various miscellaneous costs. These would include payment of the administrative cost allowance (ACA) to guarantee agencies and the loss of revenues through the issuance of tax-exempt bonds for the financing of GSLs.

The subsidies paid on GSLs can continue for as long as ten years or more after a borrower leaves school. Because payment of these costs is an entitlement, they represent an unfunded liability on the program. In fiscal year 1984, for example, GSL costs were over $3.1 billion. Over 80 percent of these costs, however, represented payments on loans originated prior to fiscal year 1984.

In determining the cost of GSL capital lent, the current year appropriations were divided by the amount of new loans originated. For fiscal year 1984, this resulted in a cost of $.43 per $1.00 lent. Assuming a 10 percent Treasury Bill, the Department of Education has estimated that the accrual cost of a GSL dollar is $.65. Because the special allowance payment is calculated on the basis of the 91-day Treasury bill, the potential for sharp, and sudden increases in GSL costs are significant.

The NDSL program operates using a mixture of federal and institutionally-provided capital. Under the program, $1 of institutional funds must be provided for every $9 of Federal Capital Contributions (FCC) made available. These two combined sources of funds create the NDSL revolving fund at a particular institution.

From this fund loans are currently being made to students at an interest rate of 5%. The repayment period of NDSLs can last as long as 10 years after the borrower leaves school. No loan origination fee or insurance premium is charged upon loan initiation. Also paid from the revolving fund are the one-time administration fee to the institution (usually 5 percent) and annual collection costs, such as legal fees and collection agancy charges.

The federal costs incurred in connection with NDSLs consist principally of two items, the Federal Capital Contribution and reimbursements for teacher cancellations. It should be noted that the second of the costs, teacher cancellations, is not inherent in the NDSL program and should be viewed as having a primary objective other than the financing of higher education. In fiscal year 1986 teacher cancellation reimbursements amounted to $23 million.

An analysis of the two programs confirms the old adage that it is cheaper to own than to rent. In the GSL program, the Federal Government is effectively renting private funds. For this priviledge, the "full freight" must be paid. In the NDSL program, however, the initial higher costs of making federal capital available are significantly offset with lower additional carrying expenses. When an NDSL defaults, for example, no payment from the federal government is required. Rather, the NDSL revolving fund revolves a little slower than it otherwise would. The federal payment of an administrative fee of 5 percent seems small when viewed from the perspective of the educational institution absorbing all routine administrative costs over the life of the loan. The attached table, produced by Mr. McDermott, details the federal costs incurred in the NDSL program. Mr. McDermott's full study should be consulted for additional detail.

One limitation should be mentioned in connection with the study. First, the lost interest income or added interest expense to the Federal Government resulting from the Federal Capitol Contributions was not considered. The absence of present-value discounting in the study, COHEAO believes, does not alter the basic finding of the study—that it costs less to make a dollar of NDSL funds available to a student than a dollar in GSLs.

HAUPTMAN STUDY

In June, 1985, Arthur Hauptman conducted a similar analysis of the NDSL program for the American Council on Education under a grant from the Exxon Education Foundation. The study analyzed the relative costs of the GSL and NDSL programs and concluded that the costs per dollar loaned in the NDSL program are lower than those incurred in the GSL program regardless of whether market interest rates are high, medium or low.

The Hauptman study utilized present-value discounting to account for the long-term costs of the two loan programs. In order to establish a basis for comparison, 90 percent of the NDSL loan repayments were considered to be an offset to federal costs since the repayments are returned to the NDSL revolving fund for the making of new loans. Repayments reduce the need for new federal contributions to the revolving funds.

The study also recognized that future interest rate expenses will have a very significant effect on GSL costs in that it determines both the amount of special allow-

ance payments due and the rate at which future dollars are discounted. The Hauptman study utilized three interest rate assumptions, 7 percent (low projection), 10 percent (moderate projection) and 13 percent (high projection).

The results of the study, which are described in Mr. Hauptman's paper, were that GSLs are slightly more expensive than NDSLs in each insurance. In a low interest rate environment GLSs cost $.36 to $.35 for NDSLs. In a moderate environment, the costs are $.47 and $.45, respectively. Finally in a high interest rate environment, GSL costs are $.56 and NDSL $.53. The Hauptman study should be consulted directly for greater detail.

FACTORS TO CONSIDER IN DETERMINING THE FUTURE OF NDSL

The relatively lower NDSL costs per dollar loaned could be viewed as a sound basis for shifting to NDSL as the primary vehicle for assisting students and their families in the financing of higher eduction. This is not the case. As noted above, over 80 percent of annual GSL appropriations are spent to cover costs associated with GSLs made in earlier years. If GSL demand were lowered through the use of more NDSLs those costs would continue. In addition, the NDSL, program cannot be significantly expanded without significantly increasing the amount of appropriations made for Federal Capital Contributions to the NDSL revolving fund. COHEAO does not advocate any reduction or shift in emphasis to the NDSL as opposed to the GSL program. Rather, COHEAO considers the findings of both the McDermott and Hauptman studies to be grounds for maintaining both programs.

A second factor that is important in considering the future of the NDSL program is the improvements that have been occurring in the programs default rate. In 1979, the rate was 11.9 percent. By 1983, it had declined to 9.48 percent. The Department of Education also projects that the rate will improve to 7.7 percent by 1988.

This record of improvement results in large part, from an increased commitment by Congress, the Department of Education, and educational institutions to collect outstanding loans. While any loss due to unnecessary default is unfortunate, the significant improvements in the default rate signify that NDSL costs per dollar lent are declining. COHEAO believes that the improvements that have occured result from the application of up-to-date management and collection procedures and that further improvements can be achieved.

Finally, it should be noted that several policy options are available to the Congress as mechanisms for further reducing NDSL costs. The Administration, for example, has proposed raising the NDSL interest rate to 8 percent, the current GSL interest rate. Other changes under discussion include lowering the federal match on capital contributions and requiring the use of professional loan services. The option of eliminating the teacher cancellation programs was discussed earlier.

Any of these changes would result in an immediate reduction in the cost per NDSL dollar. COHEAO is not endorsing these amendments at the present time, but believes discussion of them is relevant in considering the costs of the NDSL program. It is also important to recognize that savings are available in the GSL program through increased default collection, increased interest rate, and other program changes.

CONCLUSION

The NDSL program should be continued. The relative cost incurred under the program are less than those incurred in connection with the GSL program. Notwithstanding any policy consideration relating to the preferability of NDSL as opposed to GSL in making funds available to needs college students, the NDSL program is a bargain.

The current trends in the NDSL default rate strongly suggest that losses due to this cause will continue to decrease. Continued work by educational institutions, loan services, and collection agencies will result in continued improvement. COHEAO supports these efforts and the reauthorization of the program.

Mr. FORD. Thank you very much for that presentation.

And maybe you could answer the question that Mr. Chandler asked early. You were in the room, I believe, when he asked—or Mr. McKernan asked the previous panel how they would feel about merging NDSL with GSL into a single program.

Mr. TRACEY. We're totally opposed to such a merger. We believe that the NDSL—and it can be borne out in the statistics that we

have provided—is, by itself, the most economical approach that we can make to broad-scale education of our citizenry.

To dilute it or to merge it would have no benefit.

Mr. FORD. Mr. Shook, you mentioned—and I'm using your group's statistics here—the fact that —I think you said most States provide in-school and out-of-school help with the SSIG money, or in-State and out-of-State attendance for students.

Mr. SHOOK. Not most of them out of State. But go ahead. OK.

Mr. FORD. And I took a quick look and I saw that the only States that do—only your State of Maryland does and Massachusetts does—beyond that you find it's Alaska, Maine, Idaho, the very small States that permit their students to go out of State and use that money.

And then, Mr. Carson, you pointed out that there was discrimination in many of the States against the private institutions. That's covered in this also under private voc tech schools, that's the category heading that you use. Is that correct?

Mr. SHOOK. I would have to check that out. The research and the assembling of this material is done by Jerry Davis in Pennsylvania. I would check that out first to be sure.

Mr. FORD. We go 4 year public, 4 year private, 2 year public, 2 year private, public voc tech, private voc tech, public nursing, and private nursing.

Mr. SHOOK. I agree with you. My interpretation would be like yours.

Mr. FORD. That the private voc tech is the——

Mr. SHOOK. Yeah; that would be my interpretation.

Mr. FORD. Right. The proprietary school.

Mr. SHOOK. Yes.

Mr. FORD. I see that my State doesn't permit proprietary students to participate. But it would appear that most of them do. In fact, Florida does not, Georgia does not, Hawaii does not, Illinois does not, Indiana does not, Iowa does not, Kansas does, and Kentucky does, Louisiana does.

It's very uneven, but it would look like it's about equally divided when you get to the larger States, unlike the liberality they show toward their students for going out of State to go to school.

Mr. SHOOK. Hmm.

Mr. FORD. They don't permit them to go in-State to a proprietary school.

Now, one further question that your suggestion with regard to work-study will undoubtedly raise. We have had repeated requests to expand work-study to permit work-study funds to be used off-campus in other than nonprofit positions. And you can presently get work-study money if you arrange the jobs at the local hospital, or welfare agency, or somebody else that puts these people to work, but you can't put them to work on your own campus or in another private business. And the reason for that has been the resistance to the idea that the work-study amounts to a wage subsidy for the person providing the job.

And how would you get around that argument with respect to on-campus employment for your institutions?

Mr. CARSON. Well, I think it, the wage subsidy problem, probably exists whether it's a profit or a nonprofit organization. I think that argument exists.

Now, what we have proposed——

Mr. FORD. No, No; it's quite a different problem. The people who are not offended by subsidizing the wage of a nonprofit organization are offended by a wage subsidy for profit making organizations.

Mr. CARSON. Right. I understand that. But I think the——

Mr. FORD. Strangely enough, that was the demonstrated position of this administration when we were passing the Jobs Partnership Training Act.

Mr. CARSON. Let me illustrate it in two of the schools which I operate, and how it works, and the problems, and then what our recommendation would do to try to control that question.

We have a school in Minnesota which has a State College Work-Study Program. The students in our school in Minnesota go from 8:30 to 4 or 4:30 most days and most quarters. There are some variations in that.

With the State program, we are permitted to use it for students to tutor other students who are having a particular difficulty and we do it for that purpose.

In Michigan, we have another school that trains auto mechanics in Detroit. And we use the Federal program there because the students are out—they start at 7:30 and are out at 12:30. And we have an agreement with the city of Detroit by which these students work in—it's either the Department of Transportation or the maintenance facility for maintenance vehicles.

The schedule in that school is such—and we have a central point with the city of Detroit where we can employ students—or they can employ students under the Federal program.

In our school in Minnesota, the schedule of the students really prevents them from going off the campus, but with the availability we can.

Now, I think the point you raise about the profit-nonprofit problem is in—runs through a number of things in education. Our feeling is that we're serving the students and that regardless of that that's not a discrimination or a distinction that should be made, that the aid is going to the students and assisting them, whether they're in one of our schools or a nonprofit school.

And our proposal in the recommendations we made was that these jobs be only those that would be assisting students, like tutoring, or in the financial aid office, or in the student activities office, that kind.

Mr. FORD. In your recommendation did you spell out some language for us——

Mr. CARSON. Yes; we did.

Mr. FORD [continuing]. In what you submitted?

Mr. CARSON. Yes; we did. That has been submitted.

Mr. FORD. It limits the application of the program to jobs that would be related to the educational program of the school?

Mr. CARSON. That is correct. It would not be permitted for jobs that were related to any other aspect of the school or to any other enterprise.

Mr. FORD. Well, that I think would answer the problem.

Mr. CARSON. Yeah; and that is in the material that we had submitted earlier.

Mr. FORD. Fine.

Mr. SHOOK. Could I comment, Mr. Chairman, on the statement of portability just to clarify my position on that?

I was trying to point out how within a State you do, in fact, have portability between institutions, which I think is very, very important. So, I did not want you to misunderstand. I was using the term in both ways for what happens within the State as well as what happens going out of State.

But you're perfectly right, only 10 or 15 States really push portability as far as money going out of State. Most of those schools are up and down the eastern seaboard from New England down through the Middle Atlantic area, including District of Columbia.

There has been, in fact, a trend away from portability out of State. Again I think part of the logic behind that is concern that the better students may be fleeing a State, you may lose them. And, so, recently, a perfect example would be New Jersey, where they have tried to reverse this trend to some extent. They are cutting off. They have cut off the flow of these State funds going out of State. So, that is very true.

The other point I wanted to make. The National Association of State Scholarship Grant Programs also goes on record as saying that the formula for allocating SSIG funds should be modified to reflect the fact that in some States they may actually prohibit the profitmaking institutions from participating, and their students are not allowed to participate in State programs.

So, it is also our position that we would suggest the formulas be modified and that those students not be counted in the formula if, in fact, the State is excluding them from consideration.

Mr. FORD. That would answer Mr. Carson's problem.

Mr. CARSON. Not really, I don't think. Because that would still—the students would not be included. I mean, now we have a situation where you've sort of added insult to injury by—you count the students in some States, and then don't permit them to be in the program.

Our position would be that the students participating in a program has an origin in the Federal statutes should not be discriminated against because of the type of school they go to or, in some cases, the kind of program they are taking.

Mr. FORD. Don't you think, in Michigan, if you told them that they couldn't count them unless they permitted them to participate that they would start counting them?

Mr. CARSON. Well, if they—yes, that's what we're recommending. I'm not——

Mr. FORD. And then they'd change the rule.

Mr. CARSON. Well, our recommendation is that you couldn't participate at all—the State could not participate at all if the students were discriminated against.

I think the other recommendation is——

Mr. FORD. That throws us into a lot of fights with State legislative leaders who're going to say you're now trying to tell us how to use State money.

Mr. CARSON. Uh-huh.

Mr. FORD. You can, when you're matching, say that you can provide incentives. And you would be providing an incentive to the State to include participants if you're going to count them for this.

But I don't think we would get very far in trying to tell the States what to do. I can perceive at least one house of the Michigan Legislature telling the Government to just take their program and stuff it in their ear if we try to mandate that far with them.

Mr. CARSON. Well, the——

Mr. FORD. I don't think the Republican Senate would sit still for a minute for that.

Mr. CARSON. The incentive, if this would get—would accomplish that purpose, we would certainly be in favor of. And now there's no incentive or disincentive.

Mr. FORD. It would be a more discrete way to do it. I'd be willing to try that and see what happens.

Yes, Mr. Casteen.

Mr. CASTEEN. Mr. Chairman, this particular issue is not one on which I have instructions from NGA. But some observations from the point of view of a State official who has observed discussion of issues like this for several years without having a side in the Virginia Legislature might be useful to you.

The incentive you're suggesting would make pretty good sense, I think, to most State legislators in the States that have discussed this issue.

But the fact of the matter is that in many States, including my own, where the legislatures have not chosen to respond to all of the requests for public assistance that came from proprietary schools, the policy issues have rarely been framed in terms that would register with those used today, such as discrimination on the basis of school choice.

The policy issues before the Virginia Legislature in the last three sessions when questions about eligibility for State grants have come before the legislature have had to do with how one measures and documents academic and fiscal integrity over time. There was not a determined lobbying effort against the proprietary schools. There were simply practical questions raised by legislators on the basis of common knowledge of current events.

It interested me that the public colleges and the private colleges of the more traditional type did not actively lobby against the proprietary schools petition, but that the question about quality control as an issue in public policy seemed to arise spontaneously.

Many programs, and some of those have been referenced today, are available to students who attend proprietary schools. But I doubt that very many legislators in States that do not make all of their programs available to such students would agree that the issue is discrimination on the basis of choice by school. They would argue that there are other policy questions that drive the States' determinations.

Mr. FORD. Did you want to respond to that?

Mr. CARSON. Yeah. Well, I'm not familiar with the Virginia situation. But I think the question is—the criticism, really, is a broader one perhaps, that it's clear that the schools that we represent are all accredited by a nationally recognized accrediting agency and go

through a very strict kind of accreditation—if there are problems, we certainly want to know about them.

Very often, this kind of criticism comes up. And we are very anxious to people that raise that problem, and we certainly would extend that invitation to visit schools that are accredited by the National Association of Trade and Technical Schools, and point out the kind of job that they do in training people to get into jobs. And we would certainly welcome the opportunity to have you visit schools in the State in which you happen to be in.

Mr. CASTEEN. Yeah. Let me clear, Mr. Chairman——

Mr. FORD. I note that in Virginia you don't give it to the public voc tech schools either. So, you're not discriminating against private voc techs.

Mr. CASTEEN. No. I can explain.

Mr. FORD. If you're discriminating, it's against voc tech schools.

Mr. CASTEEN. No. I think I can explain the policy history there in fairly simple terms. The public voc tech schools that are described in that category have to be the Virginia community colleges.

There's a perennial discussion about the appropriation of State financial aid money to be given in the form of grants to students who attend those colleges.

The General Assembly's position, since the question first came up in 1968, has been that the State subsidy in the form of an overscale appropriation to reduce tuition to all students attending those schools provides the appropriate level of access for those schools.

But it is a constant issue that comes up every session. And, in fact, it came up in the session that ended this past spring.

Let me say, too, that this sort of categorical attack on——

Mr. FORD. Why aren't public nursing institutions, for example, included? Don't you have any in Virginia?

Mr. CASTEEN. My guess is that what you're looking at is the type of Nursing Program that would exist as a 3-year program in a community college, as opposed to a program that would be located in a 4-year institution and would be a 4-year program.

The discussion about eligibility of students in proprietary schools did not take the shape, in the last 3 years, of the older style attack on proprietary education. They were specific failures of schools, and specific reports about default rates on Federal loans, and that sort of thing that spurred the questions that arose in the Legislature.

I think the legislators were well informed about the nature of proprietary education in the State, but that they made a policy judgment that was within their capacity as a Legislature charged with dispensing public funds.

Mr. FORD. Mr. Shook, what is under this category of public nursing institutions?

Mr. SHOOK. My understanding, since I'm not the one that collects this information and puts the schools in the categories, but my information would tell me that there are both public and private institutions that are preparing people for nursing.

And in the State of Maryland that I represent we have a number of State institutions that have very active nursing programs, and they obviously would be counted under the public nursing category.

The number of private institutions that would get into nursing would be very few indeed. And I'm sorry I'm not able to give you much more elaboration than that.

Mr. FORD. But what would you have in Maryland that you would call a public nursing institution, as distinguished from your public 2-year or 4-year schools?

Mr. SHOOK. For example, a school like Johns Hopkins might have a Nursing Program. Certainly it is a private institution. And it would be put under that category.

Mr. FORD. Well, Johns Hopkins is covered as a 4-year private institution.

Mr. SHOOK. Yes. But a Nursing Program could be also classified as private nursing.

Mr. FORD. Well, that wouldn't fit what Mr. Casteen has said.

Mr. SHOOK. I see.

Mr. FORD. I'd like to find out about the dilemma that virtually all of the States let the public and private 2- and 4-year institutions in, and then when you get over to voc tech and the category that you call public and private nursing institutions—

Mr. SHOOK. Yeah.

Mr. FORD. You find this distinction. And I can't think what kind of an institution that is.

Mr. SHOOK. We also have some hospitals, of course, that have their own Nursing Programs there. And, so, you have public and private hospitals. So, that might be the other way that I can imagine this also being counted.

Mr. CASTEEN. Mr. Chairman, it would be very difficult to disaggregate the nursing enrollments from 4-year public systems. And while I had no part in the preparation of the table, my guess is they must be identifying stand alone Nursing Programs, as opposed to those that are located within, say, the University of Maryland or the University of Virginia.

Mr. SHOOK. Uh-huh.

Mr. FORD. I see.

The hospital suggestion you made, would you check that for us?

Mr. SHOOK. Yes. I'd be—I'm sorry. I really would have to investigate to be sure. But that would be my understanding of it, and I will be glad to check that.

Mr. FORD. Thank you very much and thank you for your patience in spending all this time with us.

Mr. Casteen, I understand you're going over to Connecticut to replace my dear friend John as the president of that university.

Mr. CASTEEN. Yes, sir, that's true.

Mr. FORD. I hope you enjoy it as much as he did.

Mr. CASTEEN. Thank you very much. I hope so too.

Mr. FORD. We're very happy to have him back in Michigan.

Mr. CASTEEN. He tells me he's delighted to be there.

Mr. FORD. Well, there's a little difference in the football teams and basketball teams.

Thank you very much.

[Additional material submitted for the record follows:]

BEST COPY AVAILABLE

NATIONAL ASSOCIATION OF HEALTH CAREER SCHOOLS,
Century City, CA, September 17, 1985.

Hon. WILLIAM D. FORD,
Chairman, Subcommittee on Postsecondary Education, Washington, DC.

DEAR MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE: We appreciate this opportunity to suggest an amendment to the Higher Education Act Title IV College Work-Study program which, without increased cost, would provide expanded access for allied health students in universities, colleges, and vocational schools to off-campus employment in hospitals, skilled nursing facilities, or home health agencies as those terms are presently defined in 42 U.S.C. § 1395x.

The National Association of Health Career Schools (NAHCS) is an organization of institutions offering one or more allied health education programs. We have joined together to promote the better utilization of allied health workers by physicians, dentists, hospitals, laboratories, and clinics. We also are concerned that state and federal regulations affecting allied health workers shall be fair and shall recognize the contributions of our graduates to the nation's health care.

In a non-statutory sense, the term "allied health" covers almost every member of the medical and dental world except the physician and dentist. Over the years, the numbers of allied health personnel that work with doctors have risen from a ratio of 1.5 for each doctor to as much as seven or eight. So you can see that there are many opportunities in this large field. In fact, health care is one of the fastest growing sectors of the American economy.

SUGGESTED AMENDMENT

NAHCS would suggest for the Subcommittee's consideration that Sec. 443(b)(1) be amended by inserting after the word "organization" and before the word "under" the phrase "or a hospital, skilled nursing facility, or home health agency as those terms are defined in 42 U.S.C. § 1395x".

We suggest it is a matter of drafting judgment whether or not further amendment to Sec. 443(b)(1) is necessary by inserting the words "or health care provider" or "or institution" after the words "such agency or organization" and before the word "and".

EXPLANATION

Approximately 44 percent of the contractual clinical education opportunities in hospitals and other providers have already experienced a direct, negative impact because of the implementation of the Prospective Payment System (PPS) of Medicare-Medicaid programs, according to the Committee on Allied Health Education (CAHEA) of the American Medical Association (AMA) in its report of January, 1985. Not all hospitals and nursing homes in the Medicare-Medicaid programs are non-profit organizations.

This amendment would permit for off-campus employment in the public interest only in this narrow, defined by statute, range of Medicare-Medicaid "providers." This could make up for the increasing lack of accessibility to clinical experience for allied health students. CAHEA suggests that the PPS will trigger a reduction or narrowed clinical laboratory training opportunities, and many program directors foresee the necessity of having to plan more emphasis on didactic labs and simulation, and less on clinical experience.

We believe that this expansion of off-campus employment opportunities in all Medicare-Medicaid hospitals and nursing homes for all students eligible for the College Work-Study program would enhance the educational effectiveness of the program at no additional budget expense.

Respectfully submitted,

MELVYN E. WEINER,
President, National Association of Health Career Schools.

[Whereupon, at 12:27 p.m., the subcommittee was adjourned.]

BEST COPY AVAILABLE